WHO WANTS TO BE AN ENTREPRENEUR

2011

Learn it-------Teach it------Live it

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UCO College of Business Administration

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Oklahoma Business Roundtable
Building a Stronger Oklahoma

True to your money™
MidFirst Bank

September 30, 2011
Learn it Session Agenda

8:30 a.m. **Registration and Continental Breakfast**

9:00 a.m. **Welcome**
James Wicksted, Associate Director, Oklahoma EPSCoR
Jerry Malayer, State Director, Oklahoma EPSCoR

9:15 a.m. **The Process, the Plan and the Pitfalls**
This session will walk you through the process, the key elements needed In a business plan, and discuss how to avoid classic entrepreneurial mistakes.

Wayne Embree, VP Entrepreneur Services, i2E, Inc.

10:15 a.m. ***Networking Break***

10:30 a.m. **Reality vs Perception**
Meet local entrepreneurs and investors as they discuss lessons learned and give guidance on making your deal fundable.

Moderator, David Thomison, VP, Investments, i2E, Inc.
Bryan Fuller, CEO, DermaMedics
Michelle Witt, Director of Business Development, Impact Technologies
Rod Whitson, President, Bank2
Tra Pippin, Certified Facilitator, The Alternative Board

11:30 a.m. **Networking Lunch**
Dine with nearly 400 college students, community leaders, investors, entrepreneurs, and economic development experts from top Oklahoma companies.

1:00 p.m. **Making Sense of the Numbers**
Learn how to prepare and display your business model in your financial projections, confirm consistency in your capital requirements and "use of funds," and develop investor approved formatted and detailed financial projections.

David Thomison, VP, Investments, i2E, Inc.

2:30 p.m. **Networking Break**

2:45 p.m. **The Pitch**
You may only get one chance to make your pitch to potential investors. During this session you will gain insight into crafting a compelling investor presentation and delivering an on-point elevator pitch.

Kenneth Knoll, Concept Investment Manager, i2E, Inc.

3:45 p.m. **Questions and Answer**

4:00 p.m. **Networking Reception**

Networking Luncheon

There are no rules, no logistics, no speakers

and no presentation just networking!

☸

We have over 50 community leaders, investors, entrepreneurs and economic development experts with just one goal in mind… to talk to you about entrepreneurship, internships, capital resources and so much more!

☸

When we break for lunch either find a seat *then* network

or network *to find* a seat.

☸

Be sure to review the luncheon guest list and table layout in the folder and think about who you want to meet!

"WHO WANTS TO BE AN ENTREPRENEUR?" WORKSHOP
Friday, September 30, 2011
Reed Conference Center, Midwest City

Learn it--------Teach it-------Live it

- Ninth Annual Workshop co-sponsored by OK EPSCoR, i2E, OCAST, Greater Oklahoma City Chamber, Oklahoma Business Roundtable, UCO College of Business and MidFirst Bank
- Opportunity to learn about the commercialization process
- Topics: ranging from business plans to venture capital financing
- Successful entrepreneurs and business community members (patent attorneys, venture capitalists, etc.) are invited to interact with and share insights with participants
- Serves as kick-off event for OK Governor's Cup Business Plan Competition

The Daily Beast
May 31, 2011

Best Cities for Recent Grads

3. Oklahoma City, Okla.
POPULATION: 1,227,278
PERCENT OF POPULATION BETWEEN AGE 22-24: 4.8 PERCENT
COST OF LIVING INDEX: 92.6
PERCENT OF HOUSING UNITS FOR RENTAL: 35 PERCENT
UNEMPLOYMENT RATE: 5.2
AVERAGE PER-CAPITA PERSONAL INCOME: $38,742

The Daily Beast
May 31, 2011

Best Cities for Recent Grads

9. Tulsa, Okla.
POPULATION: 930,246
PERCENT OF POPULATION BETWEEN AGE 22-24: 4.1 PERCENT
COST OF LIVING INDEX: 88.0
PERCENT OF HOUSING UNITS FOR RENTAL: 33 PERCENT
UNEMPLOYMENT RATE: 6.5
AVERAGE PER-CAPITA PERSONAL INCOME: $40,402

Dr. Jerry R. Malayer
State Director, Oklahoma EPSCoR

Professor, Physiological Sciences
Associate Dean, Research & Graduate Education
College of Veterinary Medicine
Oklahoma State University

Doctor of Philosophy, 1990 University of Florida
Master of Science, 1986 Purdue University
Bachelor of Science, 1979 Purdue University

- The American Association for the Advancement of Science
- The Society for the Study of Reproduction (a FASEB affiliate organization)
- Phi Zeta, The Honor Society of Veterinary Medicine
- Animal Sciences Distinguished Alumnus Award – Purdue University – 2007
- Oklahoma A&M Regents Distinguished Research Award – 2004
- Pfizer Animal Health Award for Research Excellence – 2002
- Phoenix Award of Excellence - 2001

Dr. James P. Wicksted
Associate State Director,
Oklahoma EPSCoR

Professor, Department of Physics
College of Arts & Sciences
Oklahoma State University

Doctor of Philosophy, 1983 City University of New York
Master of Arts, 1978 City University of New York
Bachelor of Science, 1979 New York University

- The American Association for the Advancement of Science
- The American Physical Society
- NSF and DOE Project Director, Oklahoma EPSCoR
- Principal Investigator of a $15 million NSF EPSCoR Research Infrastructure Improvement Award
- Noble Research Fellow, Optical Materials

Session 1 Tab

As i2E's Vice President of Entrepreneur Services, Wayne Embree leads the team of executive advisors and entrepreneurs-in-residence in assisting Oklahoma's technology-based entrepreneurs.

Wayne brings to i2E more than two decades of experience as an investor in entrepreneurial companies. He has been a seed-stage investor since 1986, serving as the lead investor in numerous startups in the energy, environmental, life science and information technology sectors. He co-founded Portland-based Reference Capital Management and Cascadia Partners which managed six funds, investing in more than 100 companies including many from research universities and corporate labs.

Wayne's prior experience included policy work for the Oregon Legislative Assembly and former Arizona Governor Bruce Babbitt. He also served as a tactical operations officer in the U.S. Air Force from 1975 through 1980, directing real-time command, control and communications systems where he was consistently given responsibilities reserved for higher ranks.

Wayne holds a Bachelor of Science in Natural Sciences from Western Oregon University and a Master of Urban and Regional Planning from the University of Oregon. He has been a frequent speaker on technology commercialization and venture creation. He is an active private pilot, flying classic and antique aircraft.

Wayne Embree
Vice President of Entrepreneur Services
wembree@i2E.org
www.i2E.org

The Process, The Plan & The Pitfalls

Wayne Embree
Vice President Entrepreneur Services

What is an entrepreneur?

Why become one?

What's the *one thing* any entrepreneur must have?

What defines success?

How would you know?

What increases odds of success?

What do these companies have in common?

Envision a Great Company

- Recruit strong, independent board members
- Retain experienced, qualified legal counsel
- Seek out well-respected technical advisors
- Hire the very best people – give them authority, hold them accountable

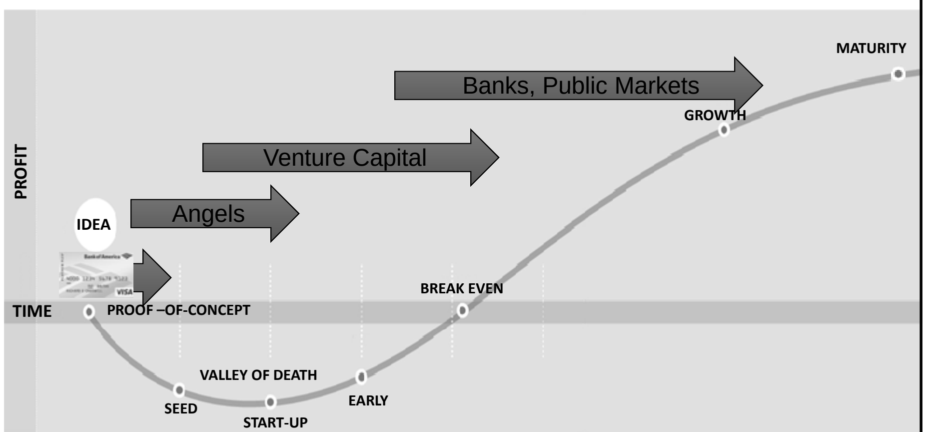
Creating a Business Foundation

- "Build a better…"
- Opportunity doesn't knock – you have to chase it down the street and mug it

Getting Started

- Who's your IDEAL first customer?
  - Does your product solve a serious problem, or
  - Does your product create new opportunities
- How is the product delivered to your customer?
- Can you make, market, distribute, sell, service your product(s) ***profitably?***

The Start-Up Lifecycle



Business Plan – Why Have One?

- Two purposes
  - Raise capital
  - Provide strategic direction
- It's a Business' story of opportunity and vision
- Articulate the business model
- Detail key milestones – past and future
- Explain who's responsible and accountable
- Written with passion and a sense of urgency

Key Elements

- Product – not just cool "disruptive" technology
- Market – customers, channels, competitors
- Business Model – can the business operate profitably, sustainably
- Finances – how much money is needed, when, how's it spent, when's breakeven
- Execution – risk reduction
- Package – make it your own

The Opportunity

- Does ***anyone else*** care?
- Have you spoken to them?
- Will they test a prototype?
- Do they have decision authority?
- Can you build it successfully?
- Can you make a profit?
- You will underestimate product development costs by 3 – 5 X

The Market

- How many customers can you identify?
- Do you know how they buy, when, will spend
- What do they do now?
- You have competitors – status quo strongest
- Do you require a sales channel or do you have to build one?
- Marketing is NOT sales brochures & trinkets
- You'll underestimate sales and marketing costs by 10 – 20 X

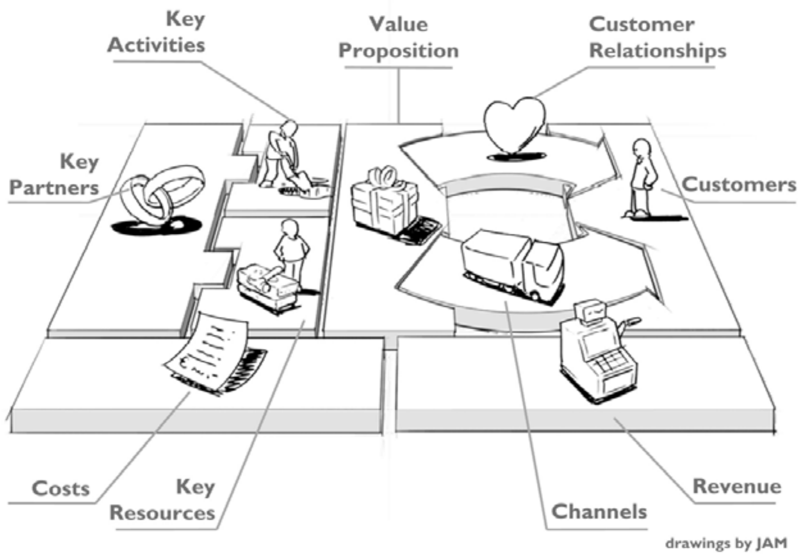
The Business Model

Be impatient for profits, but patient for growth

Clayton Christiansen, PhD

- More capital can't fix a flawed business model

Business Model Building Blocks



*Alex Osterwalder's Business Model Canvas

Financial Model

- 18 – 24 Months bottom-up detail by month
  - Balance Sheet
  - Profit & Loss
  - Cash Flow
- Years 3 – 5 by quarter
- Itemize, describe key variables & assumptions
  - Test them!
- No such thing as "conservative" financials
- You'll underestimate financial needs 2 – 5 X

Execution

- Leadership – relevant experience: industry, technology, markets and prior results
  - List individual responsibilities and objectives
- Describe open positions and desired skill sets
- Discuss outsourced services, functions. Explain why and back up options
- Detail compensation, ownership
- You'll replace 4 – 5 key employees – in some cases multiple times – before exit

The Document

15 – 20 Pages TOTAL

- Cover
  - Principal contact: name, address, email, phone
- Executive Summary: 1 – 2 pages
  - Opportunity/problem; product/solution; market; strategy; management; summary financials
- Company Overview: 2 – 3 pages
  - Explains the "Why"

The Document (Cont.)

- Market, Marketing, Sales Strategy: 3 – 6 pages
  - Opportunity
  - Market dynamics
  - Accessible market
  - Competitors
    - Include a feature, function, value matrix
  - How you'll reach your customers
    - Viral web advertising doesn't cut it

The Document (Cont.)

- Management, key roles, board: 2 – 3 pages
  - Use abbreviated bios
  - Highlight relevant knowledge and skills
  - Emphasize critical leadership experience
  - Don't have the right person? Leave the slot open
- Finances: 3 – 5 pages
  - Key assumptions and variables
  - Sources and uses of funds
  - The exit strategy – find and use comparables

But Wait… The Diligence Package

- Incorporation and Other Corporate Documents
- Management, Officers, Directors & Employees
- Capitalization/Securities
- Target Market Sizing
- Marketing & Sales
- Customers
- Competition
- Operations
- Financial Information
- Intellectual Property (Patent, Trademarks, Copyrights)
- Contract & Strategic Partnerships

Critical Business Plan Mistakes

1. Grammatical and spelling errors
2. Written using passive language
3. Poor market research; failure to define/characterize target market
4. Flawed internal logic in the financial model
5. Leaps of faith (unsupported assertions)
6. Focusing on the technology and not the business
7. Ignoring or dismissing the competition
8. Projections too aggressive or can't support the capital being sought
9. An executive summary that doesn't clearly and succinctly make the investment case
10. No contact information

Additional Information

Excerpts from " The Entrepreneurs Path: A Handbook for High Growth Companies"

The Path

The Risk

The Cash

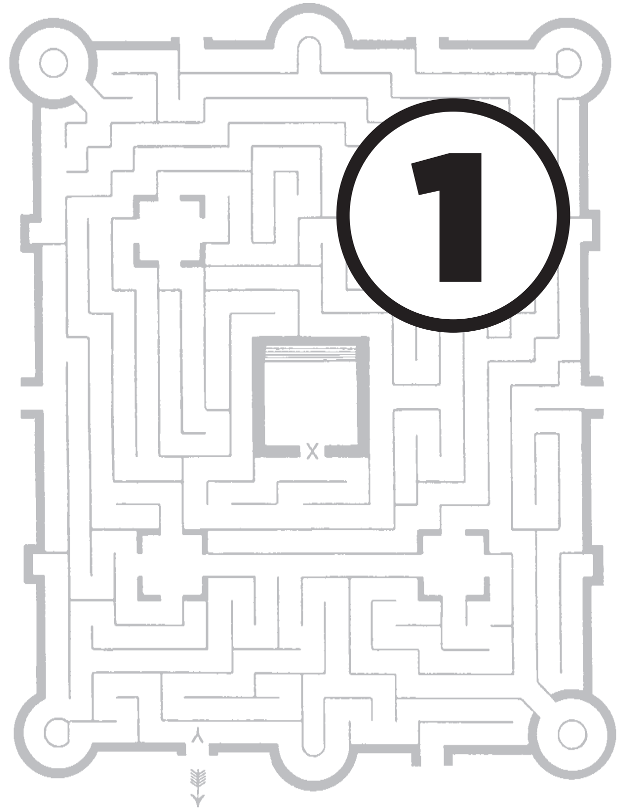
The Plan

Institutional Investor Due Diligence Items

"Even if you're on the right track, you'll get run over if you just sit there."

– Will Rogers

THE PATH



You have an idea. You have passion and determination. You are ready to turn your idea into a company, and you know you need some help.

Congratulations!

**You've come to the right place.
This handbook is written expressly for
entrepreneurs who want to create
high growth businesses.**

High growth businesses are generally founded on state-of-the-art products or processes, and typically have some level of proprietary status. These businesses include:

- **Advanced materials**
- **Aerospace**
- **Agro-sciences**
- **Biosciences**
- **Communications Technologies**
- **Electronics and related fields**
- **Energy**
- **Information Technology**
- **Medical Devices**
- **Medical Instruments**
- **Nanotechnology Robotics**
- **Telecommunications**

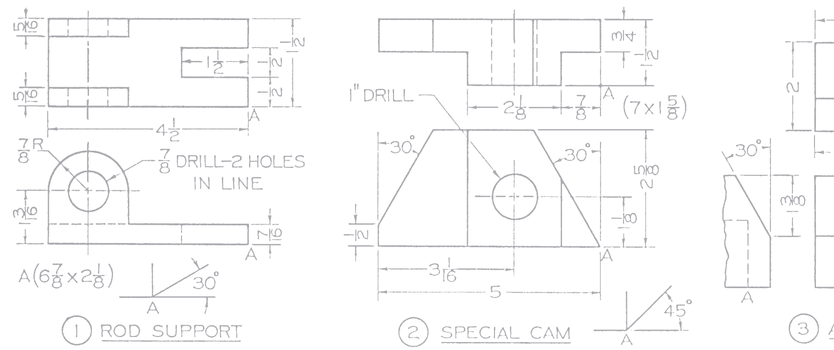
... to name a few.

FACTOID

There are 29 million small businesses in the United States according to the Small Business Administration (SBA). Since 2004, yearly averages of 650,000 new companies are launched. It's a pretty likely wager that those businesses began with an idea from an innovator or entrepreneur like you.

Entrepreneurial ideas may originate in an "aha" moment of inspiration or develop slowly over a period of time. They may involve writing proprietary software or developing applications from open source code.

Sometimes they come from putting together existing components in innovative and unusual ways or from years of laboratory experimentation and bench research that leads to a new discovery, invention, or technology. Other times groundbreaking ideas appear behind the closed eyelids of soon-to-be entrepreneurs while they are lying on the beach.



Whenever and however the "aha" moment arrives and the decision is made to turn that idea into a product or service, the **Entrepreneurial Path** begins.

The Entrepreneurial Path

The Entrepreneurial Path ***is*** the path you will be following as you take your big idea from Proof-of-Concept to Growth.

We will lay out a path of critical milestones required to succeed at each stage to progress to the next. The sequence of milestones and actual events on the path will vary from company to company. Every new company that continues to survive and progress will experience each of these stages, sometimes more than once.

The Entrepreneur's Path focuses on the first five stages of the company's existence; **Proof-of-Concept**, **Seed**, **Startup**, **Early**, and **Growth**. These stages typically span the first three to five years of a company's life.

Proof-of-Concept: The business concept is developed.

Seed: The company has a product or service at a very early stage of development but probably not fully operational.

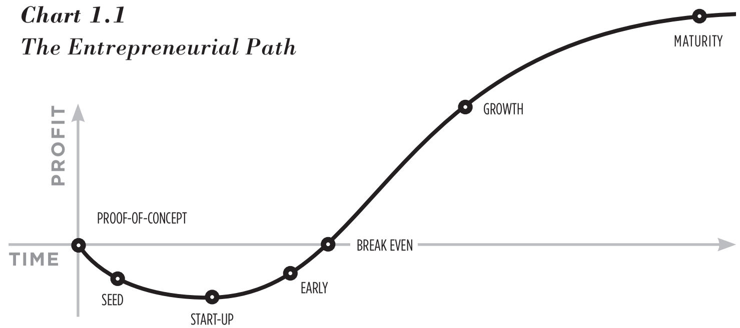
Startup: The business functions of the company are created; the initial management team is in place. The first prototype is more developed.

Early: Beta testing has begun and company may be approaching breakeven with respect to expense and revenue.

Growth: Company is producing revenue and profitable.

Later Stage to Maturity: Product or service is widely available. Acquisition IPO, or continue to innovate and operate as a private company.

Chart 1.1
The Entrepreneurial Path



As you follow the path of this handbook, you will learn more vocabulary of the entrepreneurial world. Start using the names of these stages to describe your company. Become comfortable using these terms when you talk to investors, service providers, business people and other entrepreneurs.

TIPS FROM THE TRENCHES

Using entrepreneurial language helps others understand where you are and demonstrates that you understand, too.

Matching Sources of Capital to the Milestones of the Entrepreneurial Path

All high growth businesses require risk capital. Each stage of the Entrepreneurial Path has a corresponding stage and source of capital. Understanding the stages and sources of capital focuses the management team's efforts. Focusing on the correct capital source and identifying achievable milestones will simplify and improve the success of the capital raising process and focus the management team's efforts.

This seems to be one of the hardest fundamentals for entrepreneurs to learn.

For example, the Proof-of-Concept Stage is no time to be seeking venture capital. We can't count the number of times we've heard entrepreneurs say that **"several venture capitalists are interested in investing,"** when we know that only a very small percentage of all venture capital is directed at companies that are not producing revenue.

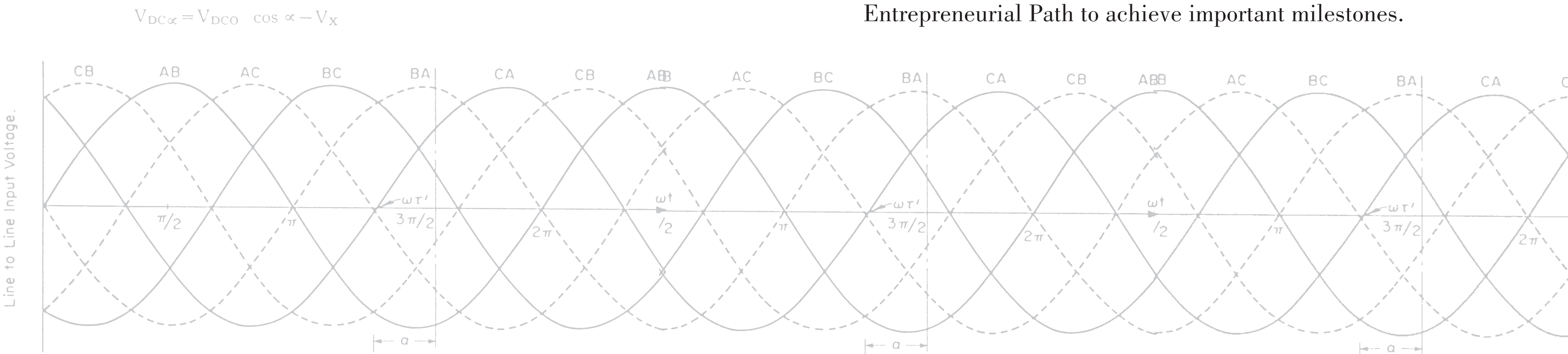
FACTOID

The last few years, according to the National Association of Venture Capitalists, only 2 percent of all venture capital went to seed investments and some statistics report that only 1 percent of the businesses targeting venture capital firms for dollars actually receive an investment.

As these statistics shout, except for the biotechnology and life sciences industries, venture capital funding is an unlikely option for an entrepreneurial company until the business is producing revenue. Yes, there are outliers that attract venture capitalists early, but the vast majority of deals do not fall into this category.

Don't jump ahead and try to attract capital from an investor type before your company reaches the stage where that investor likes to invest. That's equivalent to fishing for catfish in a mountain trout stream. It's a waste of your time and theirs.

So how ***do*** you target the right source of capital at the right stage? Start by understanding what your company will need capital for and how it will be used at each stage of the Entrepreneurial Path to achieve important milestones.



CAPITAL REQUIREMENTS PER STAGE

Proof-of-Concept: Proof-of-concept funding is usually the first capital that a business attempts to access. It is used to incorporate the business, invest in appropriate protections for the technology, and create a limited prototype of the product or service.

Seed: Seed investment rounds typically provide capital to prove the feasibility of the product and quantify the market.

Startup: Startup capital, typically referred to as first round or Series A, and used to fund the introduction of a working product prototype or pilot to the market to verify that the economics of the business plan are sustainable. With shifting financial markets, this round is often an extension of the seed round.

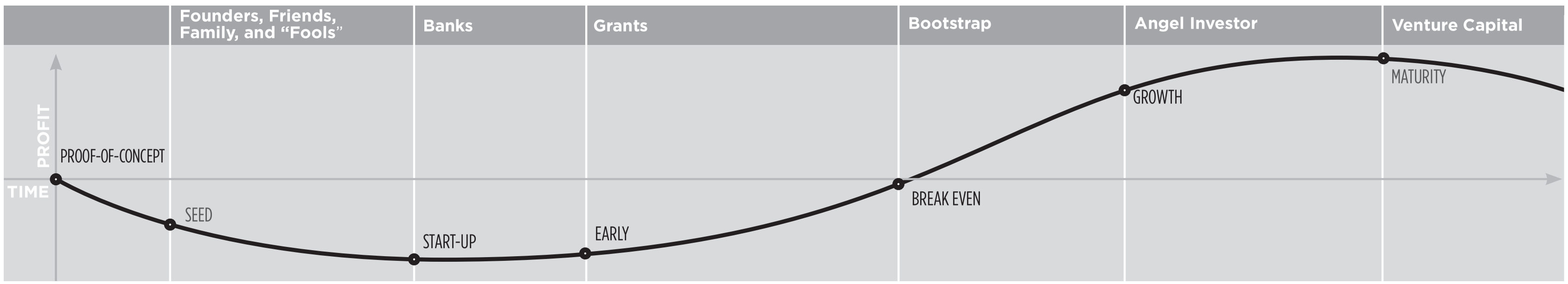
Early: These equity rounds that occur after the seed and startup rounds, commonly referred to as first or second round or Series B and so on, are typically used to fund product and market development. Early Stage is often referred to as the stage when a company is generating revenue based on its business model.

Growth: This equity capital is used to fund expansion and growth. Depending on the business, certain types of bank loans may be applicable.

Later Stage to Maturity: Equity capital and traditional funds support expansion, growth, and potentially strategic acquisitions to enter new markets.

There is one more term that entrepreneurs will hear during discussions of capital requirements – The Valley of Death. This is the point during the Proof-of-Concept, Seed, Startup, and Early Stage when the company is spending more money that it is taking in, usually to build product and carry out market development. It is called that Valley of Death because so many companies don't make it out of this stage.

Chart 1.2
Matching Capital Sources to the Entrepreneurial Path



SOURCES OF CAPITAL

Successful entrepreneurs match their company's capital needs with the most appropriate and likely capital source at each stage.

Founders, Friends, Family, and "Fools": You will be your first investor. After that, family, friends, and acquaintances will often invest very early in the company's Path as their trust and interest is in the individual more than monetary returns. You will often hear this group "fondly" referred to as "fools" because this stage of a company's growth is so risky and unpredictable.

Banks: Local banks, and to some extent national ones, may be a source of lines of credit, traditional borrowing, or convertible debt. The more personal resources the founder and/or company has, the more possible this source is.

Grants: Business grants come from public and private sector, not-for-profit foundations and other entities. Typically, grants are used in the early research and development stage of a company to further the technology. Unlike loans, grants do not have to be repaid. Grants, like equity capital, are time intensive to attract and the entrepreneur must be targeted in his or her approach.

Bootstrap: Bootstrapping requires entrepreneurs to use imagination, know-how, and hard work to pay as they go through revenue without raising equity capital. These make the most interesting companies and entrepreneurs.

Angel Investor: Private, high net worth individuals who meet the criteria of accredited investor and invest their own capital in seed and early stage businesses.

Venture Capital: Institutional investors with a typical investment threshold of at least $2 million in exchange for equity in early and later stage businesses.

MAKING YOUR BIG IDEA REAL

You bring the idea. ***The Entrepreneur's Path*** provides the framework, tools, and process to validate the business potential of your entrepreneurial dream.

This chapter has introduced you to the Entrepreneur's Path and the Sources and Uses of Capital. In the following chapters, we provide tools, processes, thought-starters, and information on best practices. These will help entrepreneurs reduce the risk that is inherent in new companies and achieve the critical milestones along the path from Proof-of-Concept to Growth Stage.

1. THE RISK – Entrepreneur's Risk Assessment: This is a thought-starter for evaluating the activities that relate to the **product or service** you plan to provide, the **market** your product will serve, and the viability of the **business** you want to build. The general risk for the aspects of ***product***, ***market***, ***business***, ***finance***, and ***execution*** will be addressed in your business plan.

2. THE CASH – Capital Sources: Get real about the fine art of raising capital. Learn about the money that may be available to entrepreneurs and how to increase your chances of getting some of it. Understand the importance of the Entrepreneurial Path as it pertains to capital requirements and sources for your company. Learn how to develop informed tactical and strategic plans to reach a realistic and achievable capital plan to move your company through the Path and over time to long-term sustainability.

3. THE PLAN – Business Plan Checklist: The business plan checklist provides an overview of key philosophies related to writing a business plan, questions the plan must answer, and statements and misconceptions to avoid.

4. THE PITCH

Elevator Speech: Learn the "hows" and "whys" of developing the perfect elevator speech that describes your business and its opportunity for the market and investors in less than fifty words.

Business Plan Pitch: The **handbook** provides guidelines on content, approach, and a presentation template to help entrepreneurs deliver a business plan pitch that earns investors' attention.

5. THE PRICE – Valuation Model and Sample Term Sheets: Learn how to approach valuation from an investor's viewpoint to attract capital and create a collaborative relationship with the people who control the purse.

6. THE RELATIONSHIPS – Relationship Building: We offer examples of techniques and best practices in productive networking, establishing an advisory board, and creating an effective board of directors that will help your company grow.

7. THE EXIT – Exit Strategies: In the beginning, you may be so consumed with product and market strategies that it seems impossible to invest any energy in considering the milestones of the later stages of company growth, but exits are always on investors' minds. Learn the basics of investor exit strategies–good and bad–including fire sale, initial public offerings (IPO), and acquisition.

CONCLUSION

Whether your idea is still just a dream or already has an address, there is no one-size-fits-all, turnkey approach to starting your company. The first thirty days of any new venture will prove that.

On the other hand, many of the same issues and risks are present in almost all advanced technology start-ups. While this handbook does not supply all the answers, it helps you ask the right questions, at the right time, of the right folks.

Key Points

While each entrepreneur and company is unique; the stages and milestones of the Entrepreneurial Path are common to all.

Successful entrepreneurs match their company's capital needs with the most appropriate and likely to invest capital source at each stage of the Entrepreneurial Path.

You bring the idea. ***The Entrepreneur's Path*** provides the framework, tools, and process to validate the business potential of your entrepreneurial dream.

"You've got
to go out
on a limb
sometimes
because that's
where the
fruit is."

– *Will Rogers*

THE RISK

2

Since the IPO boom of the late nineties through more challenging recent times, we have interacted with more than 2,000 high growth companies which span the spectrum of advanced technology businesses.

Many of the companies we met became our clients and are following our disciplined approach to turn their ideas into products and services that customers buy. Are they all going to succeed? Probably not. Starting a new company is a very risky business.

FACTOID

Since 2004, a yearly average of 575,000 small businesses (about 20 percent) ceased operations. Three in ten new firms don't make it past 24 months, and about half of the ones that do, don't survive more than five years, according to Business Dynamics Statistics compiled by the U.S. Census Bureau.

On the other hand, for every three new companies that don't make it through twenty-four months, seven others survive. And while about half of those seven fail in the next five years, the other half of them don't. They continue, creating jobs, revenue, and breakthrough innovations. That is the funnel of startup innovation. Out of ten great ideas, two to three make it.

BUILDING A PRODUCT AND BUILDING A BUSINESS ARE NOT THE SAME THING

Entrepreneurs are passionate about their technologies. In the beginning, the company, the product or service, and the technology are so closely related that it's hard to think about them independently.

From the start, innovators and entrepreneurs have to focus most of their energy and resources on developing their product. There is a tendency to give lip service, postpone, or totally ignore any analysis of the market they are hoping to serve and whether that market is substantial enough to support the new company.

"If you build it they will come" may work for the Field of Dreams or Trump Tower, but never, no not even once, in all our years of working with entrepreneurs have we seen this strategy work for a start-up company, no matter how innovative or amazing the technology, product, or service was.

The cold hard truth of high growth entrepreneurship is that unless you deliver a product or service that thousands and thousands of people want to buy and can pay for, your company will likely be one of the seven in ten that don't succeed.

TIPS FROM THE TRENCHES

"Before you move very far or very fast in the direction of taking your idea, product, or service from concept to market, take the time to invest a portion of your scarce resources–including your passion, creativity, energy, money, and time–to finding out everything you possibly can about the market and customers you want to serve."

WHAT PROBLEM ARE YOU SOLVING AND FOR WHOM?

As an entrepreneur on the path to success, you must be able to articulate the market problem you are trying to solve. Prove to yourself and others that there is reasonable basis for believing that the people and companies in the market you plan to serve will pay your company for your solution to the problem they have.

It isn't to say that your product or service can't be the secret sauce in your company's success. Many times it is, but always, always view products and technologies in the context of the marketplace and the needs of potential customers.

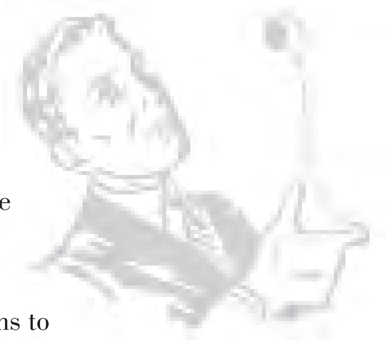
As you think about your big idea, paraphrasing the words of entrepreneur and author, Guy Kawasaki in his book *The art of the start*, "What's the big problem, and what's your big solution?" Is the market clamoring for a solution that your product and service solves? Is this market large enough to create a business?

Another way to look at this issue is as follows: You have a product that solves a problem in the market. How large ***is*** the market? Is the product/market combination large enough to merit forming a company? Remember, a product does not make a company.

Let's assume that you've performed the analysis and legwork to show how your company's products and services can solve big problems in a large market. What's next? What steps do you take to make your business be one of the seven in ten that gets through the first 24 months and goes on to survive five years or more? How do you find the potholes ahead of time?

THE ENTREPRENEUR'S RISK ASSESSMENT

To say that entrepreneurial businesses are risky is kind of like saying the sky is blue. From day one, every new company faces risks.



High growth start-ups that gain traction, attract equity capital and great employees, and win the confidence of early adopters do so because they have determined where the risks are at every stage along the Entrepreneurial Path and have developed tactical and strategic plans to maneuver through.

Your company will face five areas of risk: product, market, business, finance, and execution.

Product: A tangible object, technology, or service offered for sale.

Market: A commercial activity where goods and services are sold.

Business: A commercial enterprise that produces a product or service to be sold to a market.

Finance: The capital and cash flow required to achieve milestones that lead to success.

Execution: The experience, skills, and processes required to carry out a business plan.

It's also a given that predictions are imperfect and that there will be plenty of surprises and mistakes along the way, but if you start out anticipating that these will occur and conduct scenario planning in case they do, you will greatly enhance your chances of success.

The point is, if you want to attract investors' attention, anticipate and quantify risks and allow for the inevitability of unexpected events in your business plan and business pitch.

Many entrepreneurs are used to being subject matter experts–especially if they are in a technology field. Instead of trying to show everyone what you do know, be coachable. Ask questions and listen to find out what you don't know. It may be a much longer conversation than you expect.

THE ENTREPRENEUR'S RISK ASSESSMENT PROCESS

The **Entrepreneur's Risk Assessment** is a thought process which guides you through developing a mental foundation for your company's business plan and capital strategy.

The following is not intended to be a cookbook for risk assessment, but rather a thought starter to help you think like an investor in your business, which in a very real way you are.

Keep in mind the path that we outlined in Chapter 1 as you read this chapter and refer back to **Chart 1.2**.

PROOF-OF-CONCEPT STAGE RISK

Risk Profile: At the Proof-of-Concept Stage, you have a new product or technology that seems to have market potential. You have limited financial resources and, unless you have founded a company before, your expertise in taking a product or service from concept to market is probably limited.

The **product risk** is that the product or service may not be feasible, may lack unique qualities that cannot be adequately protected, or may be too difficult or expensive to produce in quantity.

The **market risk** is that the entrepreneur has limited understanding or knowledge of the market and overstates the size or growth potential.

The **business risk** is that a great product or technology doesn't always translate into a great business.

The **finance risk** is that funding for Proof-of-Concept is hard to find.

The **execution risk** is that the innovator or entrepreneur may lack business skills.

You gather evidence to prove (or disprove) that your technology or product is viable and capable of solving a particular problem for a particular market. You have developed an initial business plan and invested weeks and months of your own time, some of your own money, and maybe even resources from family and friends.

It's time to make the call. Is your business a go, or no go? If it's a go, you are ready to consider Seed Stage risk.

SEED STAGE RISK

Risk Profile: The final design of the product or service is complete and your initial business plan is in place. The company's management team is incomplete. With no product revenues, the company is burning through cash and other resources.

The **product risk** is that the company is focused on product innovation rather than business development. Intellectual property rights remain a concern.

The **market risk** is that unrealistic market study results cause misallocation of scarce resources.

The **business risk** is the company lacks depth in business formation and commercialization.

The **finance risk** is that cash flow is a problem and Seed Stage funding is difficult to find and attract.

The **execution risk** is that the management team is incomplete and stretched thin. Investors are looking for experienced teams, but the company can't hire that experience until it receives funding.

As the company moves from Seed to Startup Stage, development of the product prototype continues.

STARTUP STAGE RISK

Risk Profile: The company continues to develop the product prototype, working toward specified milestone completion dates. Significant expenses are incurred with no product-related revenues. Companies that progress to the Startup Stage, usually experience their riskiest pre-revenue point in the "Valley of Death."

The **product risk** is that as the product or service advances from development into production, new skills are needed.

The **market risk** is that field tests with customers are not positive or that competitors respond more rapidly than expected.

The **business risk** is that as decisions for strategic partnerships, licensing agreements, and channel strategies are needed, the founding management team may lack professional experience.

The **finance risk** is that significant expenses occur without produce revenue being realized.

The **execution risk** is that the founders and management team lose focus or resist implementing appropriate business controls. The founder or members of the early team may exit the business.

As business development moves into sales, the company builds marketing and customer relationships that position it for the moving the product into the market place to gain acceptance from paying customers.

EARLY STAGE RISK

Risk Profile: The company has limited product revenues as the product enters the market place.

The **product risk** is that product features reveal a limited market-driven functionality after scaling up product.

The **market risk** is that the reality of the market is rarely as planned. Lower market acceptance, aggressive competition, and limited repeat business can affect revenue.

The **business risk** is that the company can't make the transition from a Seed to Startup environment to a true mode of business operation.

The **finance risk** is that the burn rate exceeds capital and management focuses on sales instead of profits.

The **execution risk** is that founding management and employees cannot keep up with the accelerating pace of change and have difficulty adapting to new business strategies.

As products become established in the marketplace, physical distribution is finalized and required production facilities are contracted or built. The company initiates quality control and processes.

GROWTH STAGE RISK

Risk Profile: The company is in full production with the main product and is expanding distribution. Customers are paying for product or service. Management is in transition to a formal organization structure.

The **product risk** is that product features must be refined to stay competitive. The demand for new features drains human and financial resources.

The **market risk** is that there are problems with distribution, customer satisfaction, or features. Competitors respond to product launch.

The **business risk** is that focus and business skills become more of an issue as operational demands increase.

The **finance risk** is that poor strategies of resource allocation limit the ability to increase expertise through training or hiring and impact ability to execute new contracts with customers.

The **execution risk** is that the startup buzz is gone. Hiring new people and increased focus on roles causes employees to become more focused on their functional responsibilities and less focused on the overall company mission. The entrepreneurial culture can change.

As the company becomes more well-established in the marketplace, management must continually innovate to stay competitive.

LATER STAGE TO MATURITY RISK

Risk Profile: The ability to innovate in all areas – product, market, business, finance, and execution is vital to the firm's long-term sustainability and growth.

The **product risk** is that volume declines as products mature.

The **market risk** is that the entrepreneur has limited understanding or knowledge of the market and overstates the size or growth potential.

The **business risk** is that the pressures of monthly and quarterly financial goals limit the ability and resources to innovate.

The **finance risk** is that poor strategies of resource allocation limit the ability to increase expertise through training or hiring and impact ability to execute new contracts with customers.

The **execution risk** is that a structured corporate environment makes it difficult to innovate.

In real life, companies are not built in a straightforward fashion. Every entrepreneurial situation is unique. For your company, the risks we've summarized in this chapter may occur "out of order." But rest assured they will occur.

GUIDING PRINCIPLES OF ASSESSING AND MANAGING RISK

Even though one of the best things about entrepreneurship is that there are no hard and fast rules, these principles will increase your efficiency and improve your company's odds of survival.

- Become a student of the Entrepreneurial Path.
- Anticipate addressing the product, market, and business activities and risks of each stage before moving to the next stage on the path.
- Be credible and avoid common misconceptions of the entrepreneurial process.
- Learn everything possible about the customer.
- Achieve market validation as soon as possible – this means sales.
- Develop a profitable business model.
- Success depends on profit; profit depends on growth.
- Growth depends on sales; sales depend on new innovations.
- Don't count on partners to do your selling for you.
- Accept that raising a significant amount of capital initially is not necessary or even desirable.

CONCLUSION

When you are founding a company, preparing mentally for unwelcome or unexpected events helps you anticipate situations so that when you find your company in the heat of the battle, you have a head start on a game plan to tackle and conquer the risks.

This mental toughness positions you and your business to be among the 50 percent of new companies that survive five years or more.

KEY POINTS

Building a product and building a business are not the same thing.

Successful companies turn their product or service into problem solving solutions for big markets.

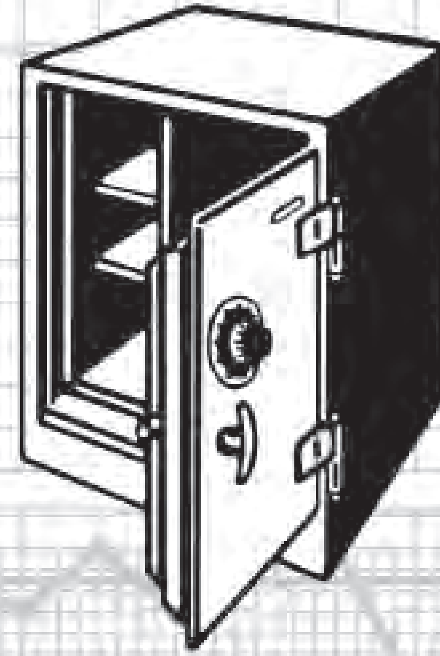
All new companies face risks. It's up to you as founder to understand the risks at every stage on the path and then to develop tactical and strategic plans to maneuver your way through.

Expect surprises every day.

“Get someone else to blow your horn and the sound will carry twice as far.”

– Will Rogers

THE CASH



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The Entrepreneurial Path is measured in terms of the time it takes to achieve a certain level of profitability. Profit allows a business to cover expenses, pay investors, repay debts, reward key contributors, and invest to achieve future growth or attract a buyer if acquisition is the goal. The sooner a company reaches profitability the better.

Starting out, most companies are not profitable. In fact, many startups go through a period of significant capital losses or negative profitability. Until the company can raise money through revenue, it must find other sources of capital. Outside investment is achieved by targeting the right sources of capital at the right stage of business growth.

One of the most common misconceptions by entrepreneurs is that they must raise a great deal of capital up front to succeed. This is simply not true. There are many, many entrepreneurs–especially in the years before and after the dotcom bubble–who started with very little capital investment.

Companies such as Cisco, Oracle, Microsoft, Mary Kay Cosmetics, and UPS are modern era business success stories that started with relatively modest amounts of up-front investment.

TIPS FROM THE TRENCHES

Stanford professors Leonard Bosack and Sandy Lerner had a need to e-mail each other but could not because each had non-compatible systems. After achieving proof-of-concept, they developed a router to accomplish their need. This husband and wife team went on to start Cisco in 1984 to commercialize their innovation. Funded through credit cards and revenue growth, Cisco was profitable with over $3 million in annual revenue before receiving venture capital from Sequoia Capital in 1987.

There are plenty of other companies that started with less than $10,000: Apple Computer, Dell Computer, Gateway, Papa John's Pizza, and Ernst and Julio Gallo, to name only a few.

This isn't to minimize an entrepreneur's need to focus on capital. It just emphasizes that there are lots of ways for creative and focused entrepreneurs to move their ideas along the path from bright idea to prototype without having to raise bundles of capital.

And that's a good thing, because raising large amounts of capital in the beginning stages of the Entrepreneurial Path is very difficult and can consume far too much of the entrepreneur's time.

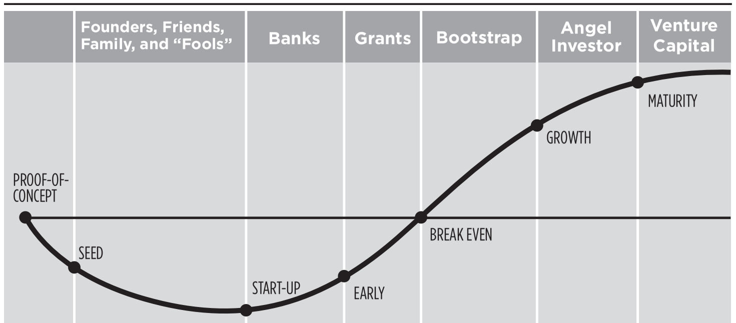
DEVELOPING A CAPITAL PLAN

Founders, Friends, and Family~
Banks ~ Grants ~ Bootstrap ~
Angel Investment ~Venture Capital ~ IPO

Developing a capital strategy and plan based on focusing on the correct capital source and identifying achievable milestones that follow the flow of the Entrepreneurial Path can simplify the capital raising process.

Take a moment to review the chart that was presented in Chapter 1.

Chart 3.1
The Capital Path



Traversing the capital path is not usually accomplished in such a straightforward fashion as is presented in this graph. The principles are the same for each business, but from one company to the next the experience is different.

Some companies may accelerate through certain stages; other companies may move forward and then step backward before they move forward again. And still other companies falter before they can raise or earn enough capital to succeed.

CAPITAL MARKET-SPEAK

To move along the path of developing an investment strategy, you first have to learn and understand the language of the capital markets.

Angel investor: An angel investor is a wealthy individual who provides capital for a startup business in return for ownership shares in the business or convertible debt. Angels often organize into angel groups or angel networks to share deal flow, due diligence on potential investment companies, and to pool their investment capital.

Convertible debt: Some investors and banks will offer capital under terms of convertible debt. In these borrowing arrangements, the lender has the option to convert the debt into shares of equity at a specified point in time.

Dry powder: Savvy investors often hold back a portion of investment capital in anticipation of unexpected events.

Equity Investment: Investments made in return for a percentage ownership in the company, which usually takes the form of common or preferred shares of stock.

First Round, Second Round: This ordinal nomenclature is used to describe most venture rounds. Companies will casually call their rounds first, second, third, etc. even though the legal term for the transaction as stated in closing documents and amendments to the documents of incorporation may refer to them as Series A preferred, Series B common, etc.

Grants: Grants come from businesses, foundations, and public and private sector organizations. Some grants require the entrepreneur to come up with matching funds from other sources. Unlike loans or equity capital from investors, grants do not have to be repaid.

Initial Public Offering: IPO stands for initial public offering and occurs when a company first sells shares of its stock to the public.

Mezzanine: A mezzanine equity investment round is generally characterized as the last venture round prior to an IPO or some other positive exit event.

Portfolio: Collection of investments made by angels or venture capitalists.

Syndication: Multiple investors, which may include individual angels, angel groups, and venture capitalists, pool their funds to provide larger investments and to diversify risk.

Third, Fourth, Fifth, etc. and Later Rounds: Equity rounds that fall after the second round of financing.

Valuation: Valuation reflects the value of the company before and after the investment of additional equity capital. Establishing the value of a pre-revenue company is challenging and can be an impediment to entrepreneurs raising capital.

Venture Capital: Venture Capital is pooled investment capital from institutional investors and high net worth individuals. Because of the size of VC funds and operating costs, most VC funds find it more efficient to invest $2 million or more. This means they are more likely to seek out high growth technology businesses that are producing revenue with the exception of life sciences.

TIPS FROM THE TRENCHES

The investor drives the capital raising process. Always. The entrepreneur must identify and implement realistic milestones to attract investors at each stage of the Entrepreneurial Path.

STAGES OF CAPITAL

We are now ready to discuss in more detail the source of capital that are associated with each stage of the Entrepreneurial Path.

Proof-of-Concept Stage: Founders, Friends, Family, and "Fools"

There is an old saying among seasoned entrepreneurs: "Starting a business usually takes twice as long and costs twice as much as you think it will." It often makes sense to keep your day job and pursue your entrepreneurial ideas after hours in the beginning. Before you take out a home equity loan, max out your credit cards, or tap into your 401(k), achieve some positive progress toward the Proof-of-Concept Stage.

Recognize that sooner or later, if you decide to keep going, you are going to have to take personal financial risk. Anticipate needing between $25,000 and $100,000 to carry your business idea through the Proof-of-Concept Stage. Several million dollars will be needed if the company is in the life sciences industries.

Financing for the Proof-of-Concept Stage primarily comes from the founder's **personal resources** and sometimes from **friends, family, and so-called "fools**." Family, friends, and acquaintances will often invest very early in the company's life as their trust and interest is in the individual than in the possibility of significant monetary returns.

Many entrepreneurs approach friends and family members (in some entrepreneurial circles known as the "Three Fs"– friends, family, and fools). People who know, trust, and like you may be more willing to invest, may accept a lower return on their investment with less collateral (possibly none) than a bank, and may be less likely to examine every detail of your business plan.

That's all well and good. Just be aware that raising money from people you know may also create personal and emotional issues that add to the already heavy stress of founding a business. This isn't to say you shouldn't go this route. Just apply the same good business practices and arms-length relationship to this financial arrangement as you would to any other.

Generally, you will want to have an attorney prepare the appropriate legal documents. Consider structuring friends and family money as debt (with an at-market interest rate instead of equity). Debt holders can't tell you how to run your business like equity partners can.

Pay off the debt as quickly as you can. Most angel investors and venture capitalists do not want their deals burdened with commitments from earlier rounds. Due to this and depending on the amount of capital needed at this stage, often times a convertible debt to equity instrument is constructed.

TIPS FROM THE TRENCHES

Sometimes entrepreneurs raise friends and family money in exchange for shares of the company. Angel investors are far less likely to invest if they have to deal with lots of small shareholders from prior friends and family rounds. Venture capitalists are even more opposed to it. Be smart and discriminating when attracting capital.

Seed Stage: Founder, Friends and Family, Grants, Banks, and Angel Investors

Once the feasibility of the product or service is reasonably proven, entrepreneurs need additional outside capital to take their idea from concept to a product or service that someone will buy.

Whether economic times are flush or challenging, your goal as an entrepreneur progress from Proof-of-Concept into Seed Stage must be to find creative ways to move your business forward while making 18 months of cash last for 24.

From Proof-of-Concept through Seed Stage, expenses accelerate. The company is in product development mode, and there are no revenues. There is a reason that seasoned entrepreneurs and startup investors sometimes call this stage "the Valley of Death."

Grants: SBIR and STTR Awards
The federal government's **Small Business Innovation Research (SBIR)** and **Small Business Technology Transfer (STTR)** programs can be excellent sources of early capital if the Seed Stage company meets the criteria of the award.

The government provides grants to supplement the limited research and development funding that is available to companies from the private sector.

Additionally, many federal agencies, particularly the Department of Defense, are looking for technologies and products that meet government needs and have commercial applications. Agency SBIR and STTR programs have provided critical, early capital to numerous entrepreneurs.

TIPS FROM THE TRENCHES

All federal agencies with an extramural research and development budget of more than $100 million (SBIR) or $1 billion (STTR) must participate in these programs, making them the largest source of early research and development funding for small businesses in the US. Eleven departments participate in the SBIR program and five departments participate in the STTR program. Together they award more than $2 billion to small high-tech businesses annually.

SBIR and STTR grants are very competitive. Still, every advanced technology entrepreneur should know enough about these programs to determine whether or not the company should consider federal grants. When a company's objectives and capabilities match the requirements of the granting agency, these funds can provide significant off-balance sheet funding.

Scientists and inventors from research and development or university backgrounds who are familiar with grant applications and reporting find SBIRs and STTRs a good option. Entrepreneurs who are founding companies to invent a drug or commercialize a nanotechnology application may also identify seeking SBIR or STTR grants as a Seed stage priority.

The grants, which provide financial assistance to companies to execute a certain scope of work, can vary from agency to agency. They cover a range of activities including research and development, testing, evaluation, demonstration, and may even include full-scale commercialization. The scope of work can be tightly or somewhat loosely defined. The company receiving the grant does not guarantee an outcome.

Generally Phase I grants award between $100,000 and $150,000 for activities of about a year or less in duration. Phase II grants are up to $750,000 for typically up to two years. Phase III projects encompass non-SBIR/STTR funding and derive from, extend, or logically conclude efforts performed under prior SBIR contracts.

The recipients of SBIR/STTR grants are required to report progress against the scope of work with a final report at the end of the grant. As long as effort is applied in good faith, there isn't the requirement to meet certain objectives. There is no requirement for the company to return the grant money if project objectives are not achieved.

SBIRs and STTRs are not appropriate for every company. It can be time consuming, especially for a startup company with limited human resources, to apply for an SBIR or STTR grant. It is not a good idea for an entrepreneur to count on a federal grant as the make-or-break funding for Seed Stage activities–especially if that entrepreneur has no prior experience applying for federal grants. The lengthy lead time for grant approval can also be a significant issue for entrepreneurs who need capital in a certain timeframe.

Federal agencies are always looking for advances in technology; they aren't looking for incremental improvements. They want groundbreaking leaps that are faster, less costly, and better than alternatives–and there are always alternatives.

In addition to SBIRs and STTRs, there are other requests for proposals (sometimes called solicitations or RFPs) and agency announcements that may be for a specific technology or encompass multiple technologies and may be for a specific time frame or open to response for years.

These opportunities are posted online by the requesting agency. Savvy entrepreneurs use the Internet to figure out which government agencies and departments might be interested in their solution or technology. It is possible to develop relationships with the program managers who follow technologies like yours. Their areas of interest and requirements are public information.

If you determine that you want to reply to an open SBIR or STTR grant or for some other government request for proposal, you may want to consider seeking the advice and assistance of someone who has been successful at the process previously. This could be another entrepreneur, a trusted mentor in a university or research institution, or a professional grant consultant. Once a company has obtained one grant with an agency, there is often the opportunity to pursue more opportunities.

When an entrepreneur learns how to develop an effective grant proposal for the federal government, that knowledge is applicable to other types of grants.

Bank Lines of Credit and Convertible Notes

Local **banks**, and to some extent national ones, may be a source of lines of credit and traditional debt. Some institutions and angel investors employ convertible notes, which are loans that are convertible to equity at the option of the lender or when certain events occur, such as a subsequent investment round.

As with any loans made to a Seed Stage company, expect a convertible note to carry an above-market interest rate in consideration of your company's risk. Depending on the terms of the loan or convertible notes, if a company lacks the cash flow to make periodic payments, there may be provisions for the interest to accrue for a period of time or until the next funding event.

Angel Investors

Angel investors are **accredited investors** (think high net worth individuals who are millionaires plus) who put their own money and time into companies that are at the seed stage and beyond.

Angels invest in Seed, Startup, and Early Stage opportunities. Their and any equity investor's approach at this stage is to provide a nominal amount of capital to see how the company progresses.

A challenge for entrepreneurs is that even though angel investors do provide about 90 percent of the outside equity that funds the initial stages of entrepreneurial businesses, individual angel investors are almost impossible for entrepreneurs to identify and reach. Angels tend to protect their privacy.

The Angel Capital Association (ACA), the trade organization of North American angel investors posts a member group directory (www. angelcapitalassociation.com). Some angel groups have websites that define their investment strategy and offer a process for business plan submission.

TIPS FROM THE TRENCHES

The Angel Capital Association (ACA) is a professional alliance of more than 165 organized angel group members representing about 7,000 accredited investors. These angel groups fund hundreds of companies a year and have an ongoing portfolio of 5,000 companies across the US and Canada.

ACA member groups report averaging about six investments per year in between three and four companies, averaging about $200,000 per investment round.

If as an entrepreneur, you think of angel investors as flinty-eyed wealthy individuals who are out to "steal" your company, readjust your thinking. Besides being about the only source of Seed and Startup Stage capital around, angel investors know how to help coachable entrepreneurs succeed. Remember, many angels became wealthy by being successful entrepreneurs themselves.

Angels are investing to make a high rate of return given the riskiness of the investments they make. Return on investment is the primary measure of their success but not the only reason that angels invest. Many angel investors made their money as entrepreneurs. They enjoy the challenge and the risk of the entrepreneurial environment and like mentoring and advising entrepreneurs. Many angels also are motivated to give back to their communities by helping promising new companies start up.

Angels invest independently, alongside other investors, or as members of organized angel groups. Organized angel groups have proliferated since the late 1990s; there are now groups in almost every state. They serve as a catalyst for Seed and Startup Stage investing.

Angels and angel groups are as unique and different as are entrepreneurs and startup companies. But whether from Silicon Valley or Oklahoma, angel investors are almost always looking for the same thing–a passionate entrepreneur with an idea that solves a big problem for a big market and a five to 30X return on their investment within three to five years, depending on the company's stage of growth and its prior capital investments.

With so little venture capital money being invested in pre-revenue businesses, entrepreneurs need angel investors more today than ever before–for their money, their contacts, their expertise and experience, and their mentoring. That's why it is very important for every entrepreneur to understand what motivates angels, how they like to receive information, what information they want to receive, and how to work with them effectively.

Some angel groups are organized as networks, which each member makes individual decisions on potential investments. Other groups are organized as funds which operate similar to other investment funds.

SeedStep Angels is an Oklahoma angel group of accredited angel investors that provide capital, strategic advice, and

mentoring to emerging growth companies to help them achieve market leadership. Typical investments range from $50,000 to $500,000 as a group with individuals having options for side-by-side investments.

Regardless of their investment model, angels usually invest fairly close to home. They are involved with their portfolio companies and prefer to be within a two or three hour drive of their investments. Group members determine the industries where they want to invest. Life sciences, medical devices, information technology, and software are the industries that interest many angel groups.

Angels like to co-invest with other angels, angel groups, and sometimes with venture capitalists. These syndicated rounds offer efficiencies for both the investors and entrepreneurs. It is common for one group of the investors to take the lead, structure the deal terms; perform due diligence, and handle the closing.

Syndication creates larger investment rounds than any single angel or group would raise. Investors benefit from additional quality deal flow and from having extra hands, eyes, and expertise for due diligence. Additional investors provide additional validation of a good investment opportunity. Larger rounds also allow angels to keep some dry powder for unanticipated events.

For the entrepreneur, syndicated rounds may mean that less time is required to raise more money. Raising capital takes the entrepreneur away from building a product and gaining customers. It is to everyone's advantage, especially the entrepreneur, to hold this process to a minimum.

Interestingly, Angel Capital Association members report that in about 60 percent of their deals, they co-invest with venture capitalists.

The ACA directory is a good place to begin the search for angel investors in your geography, but the best way to make contact with angel investors is through referrals.

Startup Stage: Grants, Angel Investors, Bootstrapping
At the Startup Stage it will be important to prioritize the business strategies that best fit the most appropriate financing stage and source. The company is continuing to develop the product prototype incurring significant expense with no product related revenues. The company is usually at the deepest point in the "Valley of Death" at this stage. Business strategies could include licensing, strategic alliances or partnerships, or the pursuit of a business venture.

The Start up requires sufficient startup capital to initiate business operations. The prototype provides the basis for final analysis of technical feasibility, cost, and market acceptance.

Bootstrapping
Bootstrapping–paying as you go with revenue instead of debt or equity capital–stretches your company's resources

– both financial and otherwise – to fund your Seed Stage growth. Bootstrapping can be one of the most cost effective ways to hasten your company's positive cash flow, reducing the business's requirement for equity capital or debt.

From day one, make effective cash management a priority. The survival of your young company is determined as much by the way you prioritize the use of scarce resources–and nothing is more scarce than cash at this point except perhaps your hours of sleep–as it is by the products you create.

Hold fixed costs to a minimum:
- ***Share office services and equipment.***
- ***Co-locate with another company or move to a business incubator.***
- ***Use the computers and servers you have.***
- ***Delay capital purchases.***
- ***Lease instead of purchase.***
- ***Negotiate fees and terms with all service providers***

Treat variable costs like you are spending your own money–which you are:
- ***Seek trade credit terms with key suppliers.***
- ***Save thousands on travel by smart scheduling and use of the Internet, or don't travel at all.***
- ***Speak to your local business school about internships.***

And by the way, these tips for bootstrapping are excellent habits to practice whether you are bootstrapping or not.

Early Stage: Venture Capital

These days, venture capitalists are institutional investors with a typical investment threshold of at least $2 million in exchange for equity in early and later stage businesses. Their economic model usually does not support investment in pre-revenue stage companies. VCs look for entrepreneurs who have a track record of startup success.

In your region, it is common to find smaller venture capital funds of around $5 to $20 million. Funds in this range, may make smaller investments. However, their investment process and investment terms are similar to larger VC funds.

Similar to angels, venture capitalists seek a return potential of over ten times their investment in about five years. Like angel investors, VCs like to syndicate. However, there are also venture capital funds that do not syndicate.

To create enough upside opportunity to justify their effort and resources, VCs need to invest $3 to $5 million or more per deal. This means that VCs usually look for companies that are further along the growth curve and generating revenues from customer sales. Venture capitalists will want to speak with existing customers as part of their due diligence.

Growth Stage through Maturity: Initial Public Offering

The first sale of your stock as a private company to the public is called an Initial Public Offering (IPO).

An IPO raises cash and creates other benefits for the company. A public company can always issue more stock, although there is no guarantee there will be buyers. If there are, those shares will raise more cash.

Going public requires the company to strictly conform to rules of the Securities and Exchange Commission (SEC), which extensive financial reporting, the creation of a board of directors, and other regulations.

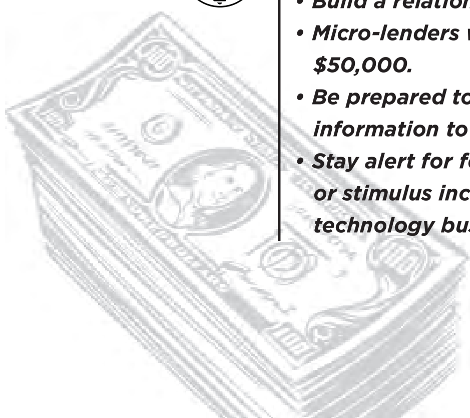
We cannot over-emphasize that IPOs are few and far between. That's why we don't invest much time on them. If you want more information on IPOs, use the Internet.

Manage cash

No matter how successful you are at raising capital, sooner or later, your new company will be cash strapped. Regardless of your stage of entrepreneurial development, become really smart about managing cash. If capital is required, do not delay.

TIPS FROM THE TRENCHES

- ***Consider bootstrapping or friends and family first.***
- ***Build a relationship with local banks.***
- ***Micro-lenders will loan from $5,000 to $50,000.***
- ***Be prepared to provide extensive information to prove credit-worthiness.***
- ***Stay alert for federal or state tax credits or stimulus incentives for startup or high technology businesses.***



CONCLUSION

Every entrepreneur eventually will need to raise capital to fund the milestones that lead to sustainable revenue. The process starts with understanding those milestones, then understanding the appropriate sources of capital, and then matching up the two in a well-formed business plan.

If you have a day job, keep it until you are certain your entrepreneurial idea can gain enough traction to become cash flow positive. Seek out experienced business people and entrepreneurs for advice and mentoring. Don't allow optimism and passion to override practicality.

Carve out some time every week to de-compress. A rock-sure way for a company to fail is to have the founder suffer a heart attack.

KEY POINTS

The Entrepreneurial Lifecycle is measured in terms of the time it takes to achieve a certain level of profitability.

Until the company can raise money through revenue, it must find other sources of capital.

To move along the path of developing an investment strategy, you have to understand the language of the capital markets.

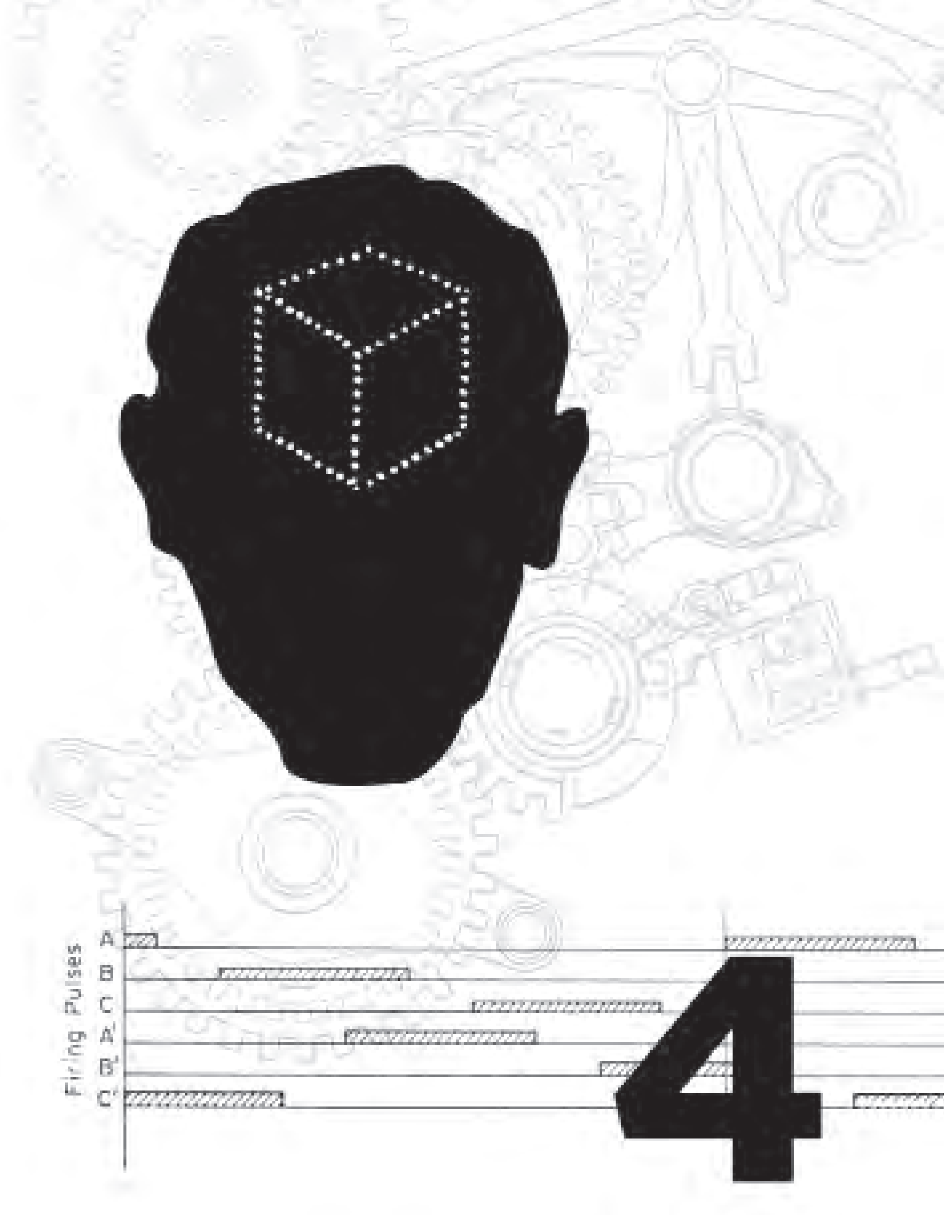
One of the most common misconceptions by entrepreneurs is that they must raise a great deal of capital up front to succeed.

Focusing on the correct capital source and identifying achievable milestones can simplify the capital raising process.

“If you want to be successful, it’s just this simple. Know what you are doing. Love what you are doing. And believe in what you are doing.”

– Will Rogers

THE PLAN



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In recent years, "experts" and pundits have told entrepreneurs that they don't need a business plan. In the words of the Rooster, Foghorn Leghorn, "That's a joke...I say, that's a joke, son." If you plan to ask someone else for money–whether it is a grant, a loan, or an investment–you have to have a well-thought-out, and well-written business plan.

Creating a formal business plan isn't as daunting as it may sound. You will have already drafted many versions of your plan. You can start with the preliminary business plan that was part of your Proof-of-Concept stage as the basis for your Seed Stage plan.

Don't believe it when someone else tells you they will write your business plan. It can't be done. Not only will you really learn your business by writing your plan, you will express your ideas and passion in your own voice and words. You don't have to write it all at once. Break it down into sections and write on it every day. Once you have a solid draft–and this will writing and rewriting, you can engage a professional to edit for you. But only you can write your plan.

Entrepreneurs often ask us for examples of a business plan. We tell them we'll give suggestions and guidelines but not a sample plan. Nor will you will find an example of a business plan in this handbook. Because the most effective business plans we have seen–and we have reviewed thousands of them–are always written by the entrepreneur.

An effective business plan will focus on the business opportunity and outline key milestones to be achieved. The business plan is the all-important first impression for raising money, forming partnerships, and promoting your company.

The business plan reflects all the industry specific information, data, and knowledge you have collected to date. It should accurately reflect your intent, rationale, conclusions, assumptions, and expectations concerning your business venture for the next five years.

The plan will be no more than 10 to 30 pages including financials. We've referred to the entrepreneurial great Guy Kawasaki previously in this book, but again to paraphrase him, "The business plan identifies a problem in the market and a solution to that problem."

The business plan is the product upon which investors will base their decision for present and future funding. It is the road map that will guide the management team for the near future, and which ultimately will be the measure of the businesses performance.

It will take some research and networking to figure out where to send your plan. If there are angel groups in your area, that's a good place to start. Economic development organizations are another source of information. So are service providers such as attorneys and CPAs. The single best way to have a potential investor read your plan is to have it referred by someone they know and trust.

Understand your audience. Friends and family may read or listen with a tolerant ear, but angel investors and venture capitalists are inundated with potential deals.

TIPS FROM THE TRENCHES

Angel investors are accustomed to making decisions quickly. The one thing they don't have enough of is time. You have to get their attention in the first three paragraphs of the executive summary, or no matter how fantastic your solution is, they will move on to something else.

While a business plan is undeniably a lot of work, it has benefits beyond the money it raises or commitments it secures. Writing a business plan creates the opportunity for your management team to work together and formally express the intentions of the business.

By the time you've hammered out an effective business plan and the subsequent business presentation, every member of your team understands the opportunities, goals, and risks to the company. There is no single better way to achieve the laser-like focus that you will need to make your venture a success.

OVERVIEW

Writing a business plan is like catching a fish. Most of the work is in the preparation. In researching your market opportunity, you will be learning information–about the market, the competition, and even potential customers that will add depth to your business plan. Be disciplined about collecting, protecting, and categorizing what you learn. When it comes time to write your business plan, you'll have more credibility if you talk about the size of the market ***and*** what you know about the problem your company is setting out to solve.

First follow the basics:

Target the correct audience.
Focus on the executive summary.
Avoid technical jargon.
Use charts, graphics, headings.
Keep the plan easy to read.
Try to prepare a 15-page plan.
Don't exceed 30 pages.
Hold the financial projections to two to three pages and keep them current, factual, and realistic.

Anticipate and answer the questions investors want to ask. Your audience evaluates business plans all the time. They know the questions, and they've heard most of the answers before. Respect their experience and present the information they want and need to make a decision about whether or not to invest in your company.

- What is the problem you solve?
- What is your solution?
- What is unique about your company that will make it successful?
- What do you know about the market?
- What are the company's goals and how will you achieve them?
- What is the competitive landscape?
- What are the barriers to entry?
- Who is management?
- Why should someone invest in you and your team?
- How are you going to make investors and yourself money?
- What are your assumptions?
- How has the company been funded to date?
- How much money do you need?
- What is your use of funds?

If you answer these questions, you now have a business plan.

There are many business plan tools available. Investigate them. You can save yourself considerable time by choosing a template that relieves you of most of the mechanics of document preparation. There are also online and classroom-based seminars on developing and writing business plans.

We have found the following flow to be an effective organization of a well-written business plan:

Executive Summary

Elevator Pitch

Company Overview and Background

Problem / Solution

Products and Technology

Market Opportunity

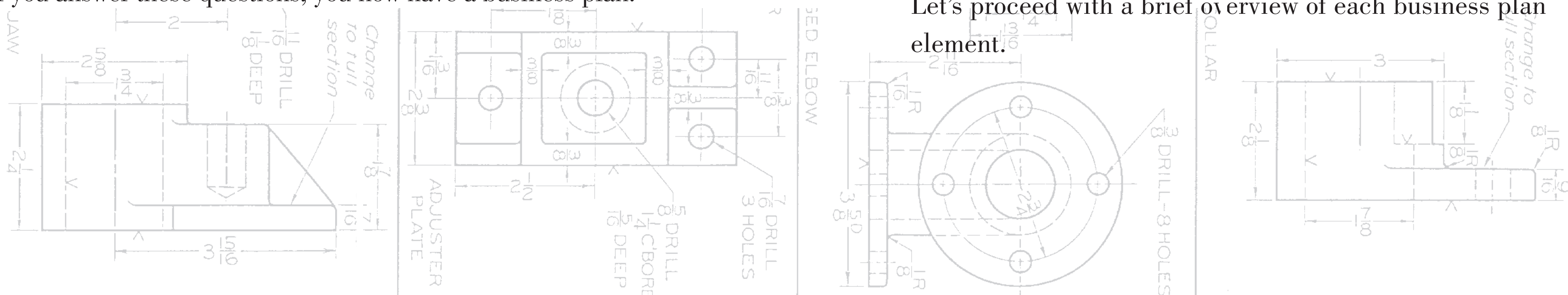
Marketing Strategy and Execution

Management Team

Financials, Use of Funds, Investment Strategy

Risk Assesment

Let's proceed with a brief overview of each business plan element.



EXECUTIVE SUMMARY

The Executive Summary is your do-or-die opportunity to grab a potential investor's attention and convince them to read your business plan. Following the same format as the full business plan, cover the major highlights in a two-to three-page detachable document.

It is not at all unusual for active angel groups or venture capitalists to receive a business plan every other day. If you want to earn serious consideration, the story you tell in your Executive Summary must be compelling.

THE ELEVATOR PITCH, COMPANY OVERVIEW AND BACKGROUND

Begin your executive summary with your "Elevator Pitch." The name comes from the idea that a great Elevator Pitch can be delivered between the time the elevator door closes and the passengers reach the next floor.

This is the same carefully crafted statement that you use to verbally describe what your business does and how you plan to make money. It takes about a minute to say. It's three lines long on the page. Rehearse your elevator pitch until you know it better than your own address.

Here are two examples of an Elevator Pitch for the same company.

We produce a disposable, inflatable sleeve for RNs and EMTs to use. It is designed to force blood from deeper tissues into superficial veins.

And

For nurses and emergency personnel that can't find a vein for an IV, we have developed a patented, disposable device that then redirects blood to engorge the vein, making it easier to insert a catheter and might save a life.

Would the first statement give you any idea of what the company does? No. It sounds like industry jargon and gobbledy-gook.

The second statement, however, tells investors exactly what the company is setting out to do. These few lines make you want to read on. It isn't easy to craft executive summaries like these, but if you can't describe your business to strangers who don't understand your technology in a couple of sentences, you are not ready to raise capital.

In the company overview, state the significant milestones the company has achieved to date. Mention strategic partnerships or relationships. You want to convey the founding team's direction and foresight through citing these early results.

Remember, you're trying to attract other people's money. Your suit and hairstyle are not enough. You need to be credible and state your accomplishments to date as well as what you plan to do in the immediate future.

PROBLEM AND SOLUTION

The centerpiece of your business plan is your solution to a big, important problem (current or emerging) and how that solution will generate revenue and profits for your business.

The biggest mistake that entrepreneurs make is failing to invest the time and legwork to understand deeply the markets they are trying to serve. You may have invented or licensed the coolest technology in the world, but unless you match it to a defined market need, technology is just technology.

Before you can figure out a success plan and strategy for your company, you have to understand what your solution can do for the market place. If you are an inquisitive entrepreneur who is willing to ask questions and then be disciplined about organizing and recording what you learn, gaining insight into your potential customers and their problems isn't as difficult or as expensive as you might think.

You are looking for two kinds of information–quantitative information about the size and characteristics of the market and qualitative information from people and companies already in the industry, especially if they might eventually be your customers.

There's no substitute for what an entrepreneur can learn from direct conversations with human beings. Call some customers you think your idea could help. People like to talk about their problems; you might be surprised

what you will learn. Call experts in the field. Use your community contacts or college professors. Trade, product, and industry associations are excellent sources of information.

Whether you are a member or not, executive directors and other association leaders will often take your call. Consider attending major industry shows or trade events. Government departments, non-profit economic agencies, and entrepreneur centers often have extensive online archives or resource libraries.

Use what you learn to explain how your product or service will solve the problems that the people you met and talked to have. Explain your value proposition–why customers need your product or service and why they will be willing to pay for it.

What is it about your solution that creates high future demand?

Nothing catches an investor's attention more than evidence that an entrepreneur has listened to many customers in the markets into which he or she intends to sell.

PRODUCTS AND TECHNOLOGY

Cover only the important aspects of the product. This is not the time to go overboard writing about your product or technology, as innovative and wonderful as it may be.

Some form of intellectual property (IP) is almost always at the foundation of any scalable technology entrepreneurial venture. Patents can add to the asset value of the company, and investors want to know that IP is appropriately protected, whether through patents or other methods. Discuss how you will create a sustainable competitive barrier in addition to any IP.

Emphasize any unique features or competitive advantages and how these produce benefits for the end user. Potential investors know that for a product or service to succeed in the marketplace, it must be less expensive or better performing than the competition, or must be able to solve a problem that couldn't be solved before. Show how your customers will use your product and why they would be willing to pay for it.

Include clear and straightforward diagrams to help the reader. Test the effectiveness of your explanation on your non-technical friends. Can they read this section of your plan and understand what you are talking about? If not, rewrite.

MARKET OPPORTUNITY

You have demonstrated your knowledge of the market, outlined the problem, and emphasized your solution. Now is the time to use your crystal ball to speculate on the long-term growth prospects of the market and your company.

The quantitative information that you collected helps qualify the market and develops a level of confidence about the marketability of the product. Your assessment of who will buy your product, how many of those buyers exist, and how much they will pay makes up the Market Opportunity

statement in your business plan. Focus on the markets that you intend to serve. Investors look for a company that knows how to narrow the focus and prioritize.

Cite third-party research–but only those statistics that are relevant to your business. You will be using data primarily from secondary sources such as trade journals, periodicals, existing market studies, and electronic data. Make sure it is the most current available. Keep an accurate record of your sources.

Internet search engines can become your best friend to find specific facts as well as market trends. Outline the size and growth trends of your target market. If you have interest from companies or customers, now is the time to talk about it.

All businesses have competition. Understand yours–those who are already selling to the industry and those who might enter the market in the future. Analyze their pricing and products. Don't neglect that nemesis of many new companies–the inertia of the status quo.

MARKETING STRATEGY AND EXECUTION

The goal is to illustrate how you will attack the market and produce revenue. The operational strategies that you express are keys to the execution of the overall business mission.

Identify early market niches or "early adopters," customers who are innovative or who are in such pain that they would be likely to take a risk on your solution sooner. Most customers don't move fast, especially when it comes to adopting a new technology or process. Identify and then create a strategy to get to the easy ones first.

What is your pricing strategy? Will customers license your technology? Do you plan to follow the software as a service (SaaS) model and charge by the month or by the click? Will you have a base offering with additional features priced separately or tiered pricing aimed at specific markets? How do your competitors price?

As part of your business plan process, be prepared to make an investment in branding. Your brand encompasses your company name, logo, tagline, Web site, and any marketing collaterals.

You don't need to come up with a logo as recognizable as the Nike swoosh, but your logo and company name do need to serve you for three to five years. They are part of the quality image you want to project.

Be prepared to spend some of your carefully conserved cash on these items. This is not the time to hire your cousin to save a few dollars unless your cousin is an expert in design.

Outline your marketing, sales, and promotional strategy. Articulate the company's partnering goals. Although your company is young, your product is still under development, and you probably don't have any customers yet, there are cost-effective ways to gain early recognition in the marketplace.

TIPS FROM THE TRENCHES

Volunteer to speak at your local Chamber or as a guest presenter in college or graduate-level entrepreneurial classes. When you see an article in a local paper, magazine, or on a web site that is in your field, call the author, and volunteer to contribute to his or her next piece about your industry. Send out press releases. Include copies of anything written about you or your company as an addendum to the marketing section of your plan.

If you plan to develop an in-house sales force, be prepared to address training and after sales support. If your plan is to sell through other organizations, identify the channels you seek as partners, your plan for convincing them to partner with you, and why they would want to say yes.

Include a chart of key milestones for the next six to 24 months. Repeat...include a chart.

MANAGEMENT TEAM

Investors invest in people first and technology second. List your team's depth and experience to demonstrate your worthiness and credibility. Include a paragraph for each key executive that covers all relevant experience. Investors want to know if you've worked together before and how you operate as a team. Emphasize all experience in the target industry as well as key relationships with potential clients or suppliers.

Acknowledge the limitations of the founding staff in relation to the future company. If you are a technical professional without much operating experience, as many founding entrepreneurs are, anticipate the need for skills that you don't have. Summarize key hires for immediate, intermediate, and longer-term time frames. Keep your ego out of the discussion. You can do a lot, but investors know that you can't do everything.

FINANCIALS, USE OF FUNDS, INVESTMENT STRATEGY

The financials are driven by the marketing strategy and milestones. Clearly state all assumptions and tie them back to the milestones of the marketing plan. Represent a complete set of financials in two to three pages covering three to five years, including a current income statement, balance sheet, and cash flow statement.

Always use a "bottom up" approach based on your market intelligence. Never use a "top down" analysis...and most important, never, ever tell investors that your company only needs "1, 2, or even 5 percent market share" to achieve your revenue goals.

For many entrepreneurs understanding how to construct and explain the financials is challenging. If you don't have an undergraduate degree in business or an MBA, get some help in this important area. The founder of a company cannot expect to delegate the financials and succeed.

Include the following financial information in your business plan.

- Assets and liabilities
- Sales volumes
- Operating expenses
- Net income and cash flow
- Gross margin
- Revenue growth

If you don't already understand what each of these terms means and how to calculate it, find a tutor. Without this understanding you can't create a business plan, but more importantly, you can't create a company.

Be specific about the funding you will need. Tie capital requirements to milestone accomplishments. If you expect to need multiple rounds of funding, make the amounts and timing clear. Valuation of your business is a cornerstone of your financial projections and is the subject of Chapter 7.

- Details of investment opportunity
- Funds sought
- Form of investment
- Pre/Post money valuation
- Ownership Percentage
- Subsequent funding required
- Use of funds, Exit Strategies, and Return on Investment

No matter what your financial projections are, they will be wrong. Potential investors know this. They want to see if you recognize the importance of managing cost while driving toward break-even.

UNDERSTANDING AND EXPRESSING THE RISK IN YOUR BUSINESS PLAN

Experienced investors know that there is risk in your business plan. They want to know that you know this, too. Entrepreneurs are by nature optimistic, can-do types. Identify the risky areas of your plan, and then have strategies to compensate or overcome that risk.

The following checklist is a risk assessment tool. Follow the thought process presented in Chapter 2 to ensure that every item below is clearly communicated and addressed in your plan as an integral part of your business strategy. Each of these lines is a question that you must be able to answer.

The goal of this exercise isn't to scare you off. It is to help you create a sound business plan that you and potential investors can have confidence in…knowing that surprises and changes are likely to happen every step of the way.

This process helps you, the entrepreneur, keep your eye on the ball of the critical corporate challenge to be faced in a very tumultuous time.

BUSINESS MODEL RISK

- Primary business risks and credible strategies for addressing these risks
- The company's value proposition
- Customer's ROI
- Gross profit of the company
- Strategies and use of investment funds
- Path to break even and profitability
- Highlights and substantiates the "competitive barriers"
- Below-market cash compensation to management pre-profit
- Milestones will change the value of the company when achieved relative to operational

TECHNOLOGY/PRODUCT RISK

- Product status- conceptual, working model, prototype, production prototype
- Description of level of complexity of the product
- Is the product evolutionary, disruptive, or revolutionary?
- Product testing in the user environment
- Does the product integrate in the current market environment or does it require market education, user education?
- Competitive or unique features of the product
- Competitive technological barriers, such as patents, long developmental cycles, or trademarks
- Expected life cycle of the product
- Multiple products or lines of revenue relative to life cycle
- Continuing research and development

MARKET RISK

- Explain the current market and how it may change
- Market trends
- Market size and market growth rates for each product/service
- Potential early adopters
- Logical prioritization of product/service launches derived from the Sales or testing that includes user responses as to price, features, and satisfaction
- Defensible pricing strategy validated with customer surveys
- Customer data from surveys or interviews that supports their projected sales volumes and price points
- Competitive analysis to include strengths/weaknesses comparison chart
- Market relationships developed
- Why, how, and where the customer will purchase
- A detailed plan to develop access to critical distribution channels, whether a direct sales force, product representatives, resellers, or value add resellers
- Future plans for incremental products/services

EXECUTION RISK

- Experience and strength of proven management team presented in biography format
- Appropriate and diversity of skill sets, relevant managerial experience, industry knowledge
- Experience in commercializing new products and/or developing new businesses
- Staffing matched to the company's stage of commercialization
- Time line for critical hires matched to milestone events
- Management compensation structured for a short- and long-term sustainability with annual base salaries below market and supported by an annual cash bonus pool based upon achievement of specific quantified milestones
- Entire management team owns or has stock options
- External service providers to cost effectively supplement and provide the necessary skills that aren't in-house
- Board of Directors includes external representation, and ideally control with capacity to provide accessibility to key customers, industry knowledge, managerial experience, and/or capital sources
- Use of advisory committees and/or mentors

FINANCE RISK

- Concise financial projections including income statement, balance sheet, and cash flows
- Stated assumptions and justification for the revenue and gross profit outlooks
- Financial assumptions included based on market and sales forecasts
- Source and use of funds with impact analysis of higher or lower funding
- Corporate benefit associated with each capital expenditure
- Substantial economic investment by founders and/or management
- Reasonable, justifiable valuation stating rational and approach
- Current capital market valuations specifically for companies of a similar risk profile and/or stage of commercialization
- Preferred stock, board seats and employee stock option pools
- Anticipated subsequent financing rounds until company reaches break-even and is self-supporting with cash flow

- Exit strategies and rationale for each
- Strategies to achieve investors' ROI of at least 30 percent and more than 30 times (30 X) money over expected holding period

To include or not to include the risk assessment in your plan is the question. The information in a formatted way certainly shows your credibility.

CONCLUSION

Guess what? Once you complete the plan, it will be time to update it again!

Technologists create innovative products and technologies. Business people turn technologies into successful companies.

A thoroughly researched and expressed business plan is your opportunity to credibly demonstrate that you understand your market and can solve a problem for potential customers.

No entrepreneur can ever know too much about the competition. Clear language and well-documented hands-on market research make it easy for potential investors to consider your business plan.

KEY POINTS

The executive summary is the all-important first impression for raising money, forming partnerships, and promoting your company.

Writing an effective, formal business plan isn't as daunting as it sounds.

Ask others for advice, but write your plan yourself. Not only will you really learn your business, you will express your ideas and passion in your own voice and words.

An effective business plan focuses on the business opportunity and outlines key milestones to be achieved.

Understand your audience.

Do research and networking to figure out where to send your plan to get the best results.

Keep it short. All that's needed is ten to 30 pages.

Institutional Investor Due Diligence Items

1. **Management, Officers, Directors & Employees**
    - Key Management: *resumes & references*
    - Directors & Officers of the company: *contact information*
    - List all Employees: *job title, base salary, options/equity*
    - Current Organizational Chart

2. **Capitalization/Securities**
    - Capitalization Structure: *include a description of any rights attached to preferred shares*
    - List any Non-Employee holders of any options or rights to purchase securities including warrants

3. **Business Description**
    - Business Plan
    - Executive Summary
    - Investor Presentation

4. **Marketing & Sales**
    - Sales Plan
    - Marketing Plan
    - Company Marketing Materials and Brochures
    - Historical Sales Data
    - Customer Sales Pipeline for next 6 months
    - Sales Literature describing Product Features & Applications
    - Describe Sales Process

5. **Customers**
    - Pricing Model and Current Price List
    - Provide Complete Customer List
        - Detail on 10 biggest
        - Detail on 10 medium
        - Detail on 10 smallest
    - Provide contact information for top 5 customers for product/service review

6. **Target Market Sizing**
    - Provide any Third Party data supporting # of customers in US eligible to purchase Product/Service

7. **Competition**
    - Competitive Market Analysis

8. Operations

- List of Top 10 Suppliers: *include contact information*
- Organizational Chart for R&D
- Development Calendar for next 12-24 months

9. Information Technology

- List Proprietary Technology & Patent references
- Technical Literature describing Product Design and Functionality
- Key Information Technology (IT) Suppliers
- List any Third Party Embedded Code
- Provide Graphic Layout of Technology Platform

10. Financial Information

- Latest Financial Statements
- Latest A/R Aging Schedule
- Revenue/Sales Projections & Budget
- Capital Expenditures Budget for next 12 months
- Create a Win/Loss Report

11. Intellectual Property (Patent, Trademarks, Copyrights)

- Schedule of Patent Registrations/Applications identifying each patent by title, registration number, date of registration & status
- Schedule of Trademark Registrations/Applications identifying each mark by title, registration #, date of registration & status
- List any Licensing/Merchandising Agreements relating to Patents, Technology, Trade Secrets, Trademarks and Copyrights

12. Contract & Strategic Partnerships

- List any Joint Venture or Strategic Partnership Agreements
- List Legal & Accounting Firms: *include contact information*

Technology

1. Company, Product and Service Documents

- Product Documents

User Manuals [including Installation Guides, etc.]
Reference Manuals
Architecture/implementation
Product Design Documents
Brochures, Product Fact Sheets
White papers
Industry Analyst Articles
Corporate and technical management biographies
Case studies / User Stories

2. Product Maintenance Information

- Problem Reports:

Details by Customer, severity, resolution - past 6 months
Trend report – monthly problems by product version, severity - preceding 1 year

- Product Release Documentation

Release documents for previously shipped 2 product versions/releases
Release planning documents [upcoming versions/releases]
Post-mortem documents on latest production release

3. Plans and schedules

- Project plans & schedules for current development projects
- Project plans & schedules for maintenance releases in progress

4. Customer reference information

- Customer technology testimonials, articles, papers, etc.

5. Process (Method) Documentation

- Development process
- Quality Assurance / Testing process
- Configuration Management process
- Change Management process
- Information Development (Documentation) process
- Packaging and/or Distribution process
- Client Support process
- Maintenance process
- Project plans & schedules for maintenance releases in progress

Session 2 Tab

Bank2 is an independent bank committed to helping people build better lives. We are proud to be rated a 4-Star Bank by BauerFinancial, the most respected independent body rating financial institutions.

Bank2 is a subsidiary of the Chickasaw Banc Holding Company. The Holding Company and thus Bank2 are 100% owned by the Chickasaw Nation. We have received state and national recognition through our efforts in Native America, and we are the #1 source of Native American home loans in the state of Oklahoma.

As President of Bank2, Rod Whitson is primarily focused on growing the bank to the next level. During Rod's tenure since late 2007, the bank has doubled its customer base, moved from a local Oklahoma City bank to a bank with customers nationwide and has quadrupled profits. Bank2 currently ranks in the top 5% nationally of banks its size as measured by return on equity and return on assets.

Prior to Bank2 from 2000 to 2007, Rod served in a variety of executive positions and ultimately as president of Townsend Agency, a technology marketing agency, in San Diego. While at Townsend Agency, he served biotech clients including Merck Bioscience, Dow Pharma, Accelrys, Gen-Probe, Diversa, Agilent, Applied Molecular Evolution and a host of early stage pharma, device, diagnostics and instrumentation companies. Technology clients included Toshiba, QUALCOMM, Intel, BAE Systems and ARM and a number of early stage wireless, semiconductor and software companies.

Before that from 1995 to 2000, he served in a variety of management positions and ultimately as vice president of marketing for Vistage in San Diego, a membership organization of company presidents and CEOs with 15,000 members worldwide. Rod worked with a number of leading Oklahoma financial institutions early in his career including Fidelity, Bank of Oklahoma, Oklahoma National Bank and First Interstate Bank.

He is a graduate of Oklahoma State University, with both a bachelor's degree in economics and an MBA in finance. He is a member of the OKBio Board of Directors and chair of their programming committee.

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DermaMedics® is a biopharmaceutical company specializing in the development of novel, non-steroidal dermatologics to address unmet needs for topical therapies that effectively treat a wide variety of inflammatory skin disorders and skin aging. DermaMedics' topical therapies also prevent burns that arise from the use of medical treatments and cosmetic procedures. DermaMedics' products all contain a novel bioactive chemical compound that is found in nature, and has remarkable anti-inflammatory, anti-aging and natural analgesic activity. Formulations containing this novel bioactive compound are as, or more, effective than topical prescription drugs on the market, but have none of the immunosuppressive side effects associated with prescription dermatologics.

DermaMedics' products are designed for the billion dollar dermatology and skin care market, and are sold exclusively to physicians, medical spas and cancer centers. DermaMedics' therapeutic products have been clinically proven to prevent radiation burns in cancer patients, and to effectively treat psoriasis and rosacea. Its products have now been successfully introduced into the market place with accounts established with medical spas, plastic surgeons, dermatologists, family medicine clinics, and pediatrics offices in Texas, Oklahoma, Kansas, Missouri, Colorado, New Mexico, Wyoming, Arizona, Arkansas, and Georgia.

The company markets 17 products under the DermaMedics Professional brand. These therapeutic products allow physicians to offer new and safer treatment options for acne, rosacea, infant and adult eczema, psoriasis, and hyperpigmentation and they also prevent burning caused by medical (radiation) and cosmetic (LASER resurfacing) procedures.

A professor in the Department of Biochemistry and Molecular Biology at the University of Oklahoma Health Sciences Center (OUHSC) for more than two decades, Dr. Bryan Fuller discovered the Therosol "family" of naturally occurring anti-inflammatory and anti-aging compounds in his university laboratory. Already a serial entrepreneur with 2 previous biotech companies, Dr. Fuller retired as a full-time professor at OUHSC in 2006. Dr. Fuller then built his own company, Therametics, to develop Therosol-based anti-inflammatory products. Therametics was recently sold to DermaMedics, which is now marketing these products to medical professionals.

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IMPACT Technologies LLC

Company Background:
Impact Technologies is a technology research and development company specifically targeting technologies and methods to solve problems in the energy and upstream oil & gas business. It is engaged in the design, patenting, prototyping and commercialization of over 20 new products and technologies mostly in advanced drilling systems and in gel sealing systems. Impact has the exclusive worldwide rights to 27 patents and patents-pending, mostly by Mr. Oglesby.

Showcased Technology: *SPI Gels for CO2 Floods*
SPI gel is a patent pending, environmentally friendly silica-based gel system that seals off inefficient reservoir zones, allowing more trapped oil to be recovered. The advantage that our enhanced oil recovery product offers for CO2 floods is the ability to activate the gel using the normally injected CO2, eliminating a major heavy metal (chrome) hazard and 50% of the cost associated with our competitors' products which use chemical initiators. In addition, SPI gels are 3X stronger than competitors. Our company will conduct site selection, lab testing to determine the proper formulation of the SPI gels, and inject the treatment design into the operator's wells using company-provided assets. Operators using
SPI gels in CO2 flood enhanced oil recovery projects can expect up to a 50% increase in daily oil production and $250,000 less in CO2 expenses, annually per treated well. With 7,000 CO2 flood injection wells currently in operation, the annual addressable market is $1.4B.

Development Status:
SPI has been developed over the last 6 years with project awards from OCAST (>$600K) and the Stripper Well Consortium (>$300K), with cost share provided by the founders. These funds allowed for prototyping the gels, testing them in the laboratory, and small scale field trials. Recently (2011), Impact received an additional $1.5MM grant from the Department of Energy to field test the gels on a larger, more commercial scale in three operating CO2 floods. Impact is currently forming strategic alliances with CO2 flood operators and chemical manufacturers and assembling the necessary field equipment to perform the field treatments.

Michelle Witt, Director of Business Development – Ms. Michelle Witt has a B.S. in Mechanical Engineering, M.S. in Engineering Management from Rose-Hulman Institute of Technology and a MBA from The University of Tulsa. Her experience in engineering, marketing and entrepreneurship has ranged from being CEO in a startup to roles in small businesses and fortune 500 companies. She has helped raise $4.5MM for product development with Impact.

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THE ALTERNATIVE BOARD®

Change Perspective. Improve Business. Enjoy Life.

The Alternative Board® brings together owners of privately held businesses to overcome challenges and seize new opportunities with a combination of peer advice and business coaching. Board members meet monthly to learn from one another's successes to grow their businesses. Each TAB board is comprised of a small number of local business owner members, who run non-competing businesses. These boards are formed by and facilitated by TAB certified facilitator-coaches. Each month, board members meet to share their business expertise, solve business challenges, and help each other seize new opportunities to achieve enhanced profit table growth and success.

Tra Pippin is a results-oriented, Partner at Infinite Solutions Group, a turnaround management firm in the Oklahoma City area. He has extensive experience as a President and CEO, with emphasis in manufacturing and sales/marketing fields. Since forming a turnaround management firm in 1997, his expertise in mergers and acquisitions, venture capital, capital acquisition and capital management has resulted in over 20 companies raising over $400 million. He uses the skills of over two dozen premier consultants to provide financial, marketing, sales, human resource, management and strategic planning services for his nationwide base of clients.

Prior to forming his consulting firm, Tra held President/CEO positions in several local companies. Companies that Tra led include Perfection Equipment Company, Jetta Corporation, Paxin Mortgage Company, National 60-Minute Tune and Lube, and Velocity Graphics, Inc. During Tra's tenure at Perfection Equipment Company the company was recognized as operating one of the single most profitable companies in the truck parts and equipment industry. At Jetta Corporation his leadership resulted in the company going from an annual loss of over $1 million to a profit within 12 months.

He has an undergraduate economics degree from Oklahoma University and juris doctorate and masters in business administration from Oklahoma City University. He is a member of the Turnaround Management Association, Oklahoma Bar Association, and many civic and charitable organizations.

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Session 3 Tab

David manages the client enterprise services function for both the Oklahoma City and Tulsa office. Typical client enterprise services include technology, market and competitor assessments via a third party, refinement of business & financial models, review and critique of strategically focused Business Plans, guidance in the creation of investor oriented presentations, referrals to various key technology oriented service providers, and introduction to various capital sources, such as governmental funding programs, angel investor, and venture capitalist.

All the client services are designed to support the movement of innovative technologies throughout the entire commercialization process regardless of the initial starting point. Client companies span the entire range from start-ups to on-going corporate entities expanding into new markets and/or developing new incremental technologies.

David brings a breadth of business experience, ranging from start-up organizations to a Fortune 500 company, and industry knowledge. Specifically, David has directed a corporate venture firm, managed the treasury, financial reporting, strategic planning, & information/telecom services for a large electric utility, and led the financial and/or M&A function for several high growth companies. In addition, he has served on the Board of Directors of several high growth companies during which time one grew from approximately $35 million to over $100 million in revenues in two years. In-depth industry expertise includes energy, software, informational services, and financial.

David earned a B.S. in Industrial Engineering & Management from Oklahoma State University, where he was honored as a Top Ten Senior, and a Master of Business Administration from Harvard University.

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Making Sense of the Numbers

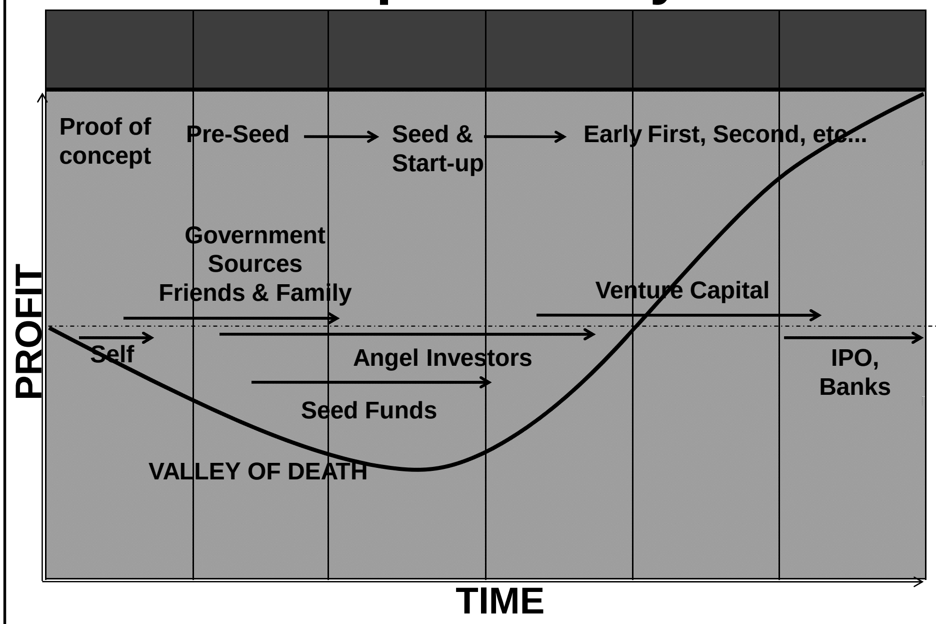
Integrated Financial Statements

David Thomison
Vice President Investments

Questions?

- ✓ What percentage of income contributes to cash?
- ✓ Are your staffing plans compatible with available cash?
- ✓ How much capital is required and when?
- ✓ What is the cash consequences of missing various financial assumptions?

The Capital Lifecycle



START-UP FACTS OF LIFE

Without Integrated Financials
Its Virtually Impossible…

- **to navigate across the Valley of Death**
- **to raise capital from Investors**
- **to quickly know cash consequences from changing assumptions**

ENTREPRENEUR
WHO WANTS TO BE AN

Integrated Financial Statements

- ✓ **Income Statement (Profitability)**
  - **Revenue – Expense = Profits**
- ✓ **Balance Sheet (Stability)**
  - **Assets = Liabilities + Equity**
- ✓ **Statement of Cash Flows (Liquidity)**
  - **Beginning Cash + Sources – Uses = Ending Cash**
    - **Driven entirely by IS and BS**

Common Mistakes

10. **Inadequate staffing levels**
9. **Using top down revenue forecasting**
8. **Underestimating sales cycle**
7. **Underestimating operating costs**
6. **Static assumptions as business scales**
5. **Underestimating Working Capital needs**
4. **Underestimating time to secure financing**
3. **Financials do not reflect business plan**
2. **For LLCs, no allowance for tax distributions**
1. **Balance Sheet does not balance!**

Recommended Format

- ✓ Minimum 3 years, 5 years ideally
- ✓ Monthly for 1st year (Valley of Death!)
- ✓ Valid assumptions critical
- ✓ Executive Summary and Investor Presentatio
  - Summarized Income Statement only
- ✓ Business Plan (2 pages maximum)
  - Detailed Income Statement
  - Detailed Balance Sheet
  - Detailed Statement of Cash Flows

Income Statement Assumptions

Income Statement Assumptions:	Year 1	Year 2	Year 3	Year 4	Year 5
Units Sold	10,000	100,000	300,000	450,000	600,000
Unit Price	$25.00	$27.00	$29.00	$30.00	$30.00
Unit COGS	$6.00	$5.50	$5.00	$4.75	$4.50
Unit Shipping Paid By Customer	$2.00	$2.00	$2.00	$2.00	$2.00
Unit Shipping Costs To Deliver	$1.00	$1.00	$1.00	$1.00	$1.00

Staffing Plan Assumptions

Staffing Plan	Annual Comp	Year 1	Year 2	Year 3	Year 4	Year 5
President	$90,000	0.5	1	1	1	1
VP Sales & Marketing	$70,000	1	1	1	1	1
Shipping/Inventory Control (1:25,000 Units)	$24,000	1	4	12	18	24
Sales Professionals	$50,000	-	2	4	6	10
CFO/Controller	$75,000	-	1	1	1	1
Accountant	$40,000	-	1	1	1	1
VP Engineering & Operations	$70,000	-	1	1	1	1
IT Manager	$60,000	-	-	1	1	1
HR Manager	$60,000	-	-	1	1	1
Total # Employees		3	11	20	28	38
Employee Taxes & Benefits	28%					
Annual Cost of Living Adjustments	3%					

Operating Expense Assumptions

Sales & Marketing Expenses	Year 1	Year 2	Year 3	Year 4	Year 5
# Trade Shows/Year	-	3	4	4	4
Cost/Trade Show	$5,000				
Marketing Materials	$12,000	$50,000	$150,000	$200,000	$500,000
Advertising Exp. (% Sales)	3.0%				
Travel Expense/Trade Show	$2,500				
Monthly Travel Expense/Sales Professional	$1,500				
Sales Commission	5%				
Development Expenses					
Product Development & Testing	$180,000	$100,000	$50,000	$60,000	$50,000
Regulatory Requirements	$80,000	$12,000	$12,000	$24,000	$24,000
Web Development & Hosting	$6,000	$18,000	$36,000	$36,000	$48,000
General & Administrative Expenses					
Travel Expense/Executive/Year	$2,000				
Telephone-Base 800 Service	$1,800				
Telephone-Variable	1.0%				
Warehouse Rent/Year	$12,000	$12,000	$72,000	$72,000	$72,000
Office Rent/Employee	$1,440				
Insurance-General (% Rev.)	1.0%				
Insurance-Product Liability (% Rev.)	5.0%				
Outside Accounting	$6,000	$12,000	$24,000	$24,000	$24,000
Outside Legal	$12,000	$25,000	$50,000	$50,000	$50,000

Income Statement

Proforma Income Statement					
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues:					
Revenue	$250,000	$2,700,000	$8,700,000	$13,500,000	$18,000,000
Freight/Shipping Revenue	$20,000	$200,000	$600,000	$900,000	$1,200,000
Total Revenues	$270,000	$2,900,000	$9,300,000	$14,400,000	$19,200,000
Cost of Good Sold	$60,000	$550,000	$1,500,000	$2,137,500	$2,700,000
Freight/Shipping Expenses	$10,000	$100,000	$300,000	$450,000	$600,000
Gross Profit	$200,000	$2,250,000	$7,500,000	$11,812,500	$15,900,000
Gross Profit Margin	*74%*	*78%*	*81%*	*82%*	*83%*
Operating Expenses:					
Salaries	$139,000	$557,230	$1,011,038	$1,307,994	$1,734,409
Employee Taxes & Benefits	$38,920	$156,024	$283,091	$366,238	$485,635
Sales Commissions	$12,500	$135,000	$435,000	$675,000	$900,000
Marketing Expenses	$12,000	$65,000	$170,000	$220,000	$520,000
Advertising Expenses	$7,500	$81,000	$261,000	$405,000	$540,000
Product Development & Testing	$180,000	$100,000	$50,000	$60,000	$50,000
Regulatory Expenses	$80,000	$12,000	$12,000	$24,000	$24,000
Internet/Website Expenses	$6,000	$18,000	$36,000	$36,000	$48,000
Travel Expenses	$3,000	$47,500	$86,000	$122,000	$194,000
Telephone Expenses	$4,300	$28,800	$88,800	$136,800	$181,800
Rent Expense	$15,600	$27,840	$100,800	$112,320	$126,720
Insurance Expenses	$15,000	$162,000	$522,000	$810,000	$1,080,000
Accounting	$6,000	$12,000	$24,000	$24,000	$24,000
Legal	$12,000	$25,000	$50,000	$50,000	$50,000
Total Operating Expenses	$531,820	$1,427,394	$3,129,728	$4,349,353	$5,958,564
EBITDA	($331,820)	$822,606	$4,370,272	$7,463,147	$9,941,436
Operating Profit Margin	*-123%*	*28%*	*47%*	*52%*	*52%*

Balance Sheet Assumptions

Balance Sheet Assumptions:	Beg	Year 1	Year 2	Year 3	Year 4	Year 5
Balances at Time/Year 0						
Cash	$17,000					
Accounts Receivables	$0					
Inventory	$0					
Leasehold Improvements	$0					
Office Furniture & Computers	$1,500					
Accumulated Depreciation	$0					
Account Payable	$0					
Bank Credit Line	$0					
Long-term Debt	$0					
Equity	$20,000					
Retained Earnings	($1,500)					
Tax Distribution	$0					
Average # Days in Accounts Receivable	30					
Average # Days in Inventory-Finished	90					
Average # Days in Accounts Payable	30					
Capital Expenditures:						
Leasehold Improvements		$0	$0	$0	$0	$0
Equipment		$5,000	$10,000	$15,000	$20,000	$25,000
Bank Credit Line:						
Advance Ratio for Accts. Rec.		0%				
Advance Ratio for Inventory-Finished		0%				
Equity Capital Raised		$400,000	$0	$0	$0	$0
Incremental Member Tax Rate		45%				

Balance Sheet

Proforma Balance Sheet						
	Beg.	Year 1	Year 2	Year 3	Year 4	Year 5
Cash	$17,000	$47,680	$189,280	$1,886,263	$5,439,744	$10,388,784
Accounts Receivables	$0	$22,500	$241,667	$775,000	$1,200,000	$1,600,000
Inventory	$0	$15,000	$137,500	$375,000	$534,375	$675,000
Total Current Assets	$17,000	$85,180	$568,446	$3,036,263	$7,174,119	$12,663,784
Leasehold Improvements	$0	$0	$0	$0	$0	$0
Office Furniture & Computers	$1,500	$6,500	$16,500	$31,500	$51,500	$76,500
Accumulated Depreciation	$0	$0	$0	$0	$0	$0
Net PP&E	$1,500	$6,500	$16,500	$31,500	$51,500	$76,500
Total Assets	$18,500	$91,680	$584,946	$3,067,763	$7,225,619	$12,740,284
Account Payable	$0	$5,000	$45,833	$125,000	$178,125	$225,000
Bank Credit Line	$0	$0	$0	$0	$0	$0
Total Current Liabilities	$0	$5,000	$45,833	$125,000	$178,125	$225,000
Long-term Debt	$0	$0	$0	$0	$0	$0
Total Liabilities	$0	$5,000	$45,833	$125,000	$178,125	$225,000
Equity	$20,000	$420,000	$420,000	$420,000	$420,000	$420,000
Retained Earnings	-$1,500	($333,320)	$489,286	$4,859,557	$12,322,705	$22,264,141
Tax Distribution	$0	$0	($370,173)	($2,336,795)	($5,695,211)	($10,168,858)
Total Equity	$18,500	$86,680	$539,113	$2,942,763	$7,047,494	$12,515,284
Total Liabilities & Equity	$18,500	$91,680	$584,946	$3,067,763	$7,225,619	$12,740,284
Balance	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*

Statement of Cash Flows

Proforma Cash Flow Statement					
Cash Flow From Operations	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income	($331,820)	$822,606	$4,370,272	$7,463,147	$9,941,436
Plus: Depreciation	$0	$0	$0	$0	$0
Operating Cash Flow	($331,820)	$822,606	$4,370,272	$7,463,147	$9,941,436
Working Capital Requirements:					
Change in Accounts Receivables	($22,500)	($219,167)	($533,333)	($425,000)	($400,000)
Change in Inventory	($15,000)	($122,500)	($237,500)	($159,375)	($140,625)
Change in Accounts Payable	$5,000	$40,833	$79,167	$53,125	$46,875
Change in Bank Credit Line	$0	$0	$0	$0	$0
Subtotal Working Capital Requirements	($32,500)	($300,833)	($691,667)	($531,250)	($493,750)
Cash Flow From Investing					
Investment Capital Requirements:					
Change in Leasehold Improvements	$0	$0	$0	$0	$0
Change in Furniture & Equipment	($5,000)	($10,000)	($15,000)	($20,000)	($25,000)
Subtotal Investment Capital Requirements	($5,000)	($10,000)	($15,000)	($20,000)	($25,000)
Cash Flow From Financing					
Funding Sources:					
Change in Long-term Debt (Mortgage)	$0	$0	$0	$0	$0
Change in Equity	$400,000	$0	$0	$0	$0
Tax Distribution-Members	$0	($370,173)	($1,966,622)	($3,358,416)	($4,473,646)
Subtotal Funding Sources	$400,000	($370,173)	($1,966,622)	($3,358,416)	($4,473,646)
Total Cash Flow	$30,680	$141,600	$1,696,983	$3,553,481	$4,949,040
Beginning Cash	$17,000	$47,680	$189,280	$1,886,263	$5,439,744
Ending Cash	$47,680	$189,280	$1,886,263	$5,439,744	$10,388,784

Financial Statement Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue/Salesperson	N/A	$1,350,000	$2,175,000	$2,250,000	$1,800,000
Revenue/Employee	$108,000	$263,636	$465,000	$514,286	$505,263
Customers/Employee					
Revenue/Customer					
Marketing & Sales/Total Operating Exp.	24.0%	36.6%	40.5%	42.6%	47.5%
Non-Payroll Expenses/Total Oper. Exp.	64.3%	40.6%	44.8%	46.0%	47.6%
Payroll Expenses/Total Oper. Exp.	35.7%	59.4%	55.2%	54.0%	52.4%
Product Development/Total Oper. Exp.	33.8%	7.0%	1.6%	1.4%	0.8%
Operating Exp. Cash Coverage (mths)	1.1	1.5	7.2	15.0	20.9
Cash Runway (mths)	1.7	N/A	N/A	N/A	N/A
(Total Operating Exp. - Gross Profit)					
Cash Runway @ 50% Scenario (mths)	1.3	7.2	N/A	N/A	N/A
(Total Operating Exp. - Gross Profit @ 50%)					

Investor:Expected Rates of Return

Yrs-Exit	Typical Stage	ROI	Target X
6	Seed	66%	21.0
5	Start-up	60%	10.5
4	First Stage	53%	5.5
3	Second Stage	47%	3.2
2	Mezzanine	41%	2.0

"Business Angels", Robert Keeley

Sample Valuation

	Year 1	Year 2	Year 3	Year 4	Year 5	
Revenues	$270,000	$2,900,000	$9,300,000	$14,400,000	$19,200,000	
COGS	$70,000	$650,000	$1,800,000	$2,587,500	$3,300,000	
Gross Profit	$200,000	$2,250,000	$7,500,000	$11,812,500	$15,900,000	
Gross Profit %	74%	78%	81%	82%	83%	
Development	$266,000	$130,000	$98,000	$120,000	$122,000	
Sales & Marketing	$32,000	$281,000	$866,000	$1,300,000	$1,960,000	
General & Administrative	$233,820	$1,016,394	$2,165,728	$2,929,353	$3,876,564	
EBITDA	($331,820)	$822,606	$4,370,272	$7,463,147	$9,941,436	A
Operating Profit %	-123%	28%	47%	52%	52%	
Investor Adjustment to EBITDA	50%	B				
Adjusted EBITDA	$4,970,718	C = A X B				
Exit EBITDA Multiple	7	D				
Expected Exit Value	$34,795,027	E = C X D				
Investment	$400,000	F				
Required Return Multiple	21	G				
Expected Value at Exit	$8,400,000	H = F X G				
Ownership %	24%	I = H / E		Business Plan		
				Valuation		
Post Money Valuation	$1,656,906	J = F / I		$1,600,000		
Pre Money Valuation	$1,256,906	K = J - F		$1,200,000		

Market Investment Comparables

- Angel Capital Investment Criteria
  - ✓ Kaufman Foundation - $1 to $3 million
  - ✓ Tech Coast Angels – Below $5 million
  - ✓ St. Louis Arch Angels – Below $3 million
- Venture Source & Venture One Deals
- Private Capital Market Statistics
- Attend Venture Capital Forums
  - ✓ Concentration Fundable Deals
- TALK to Venture Capitalists
  - ✓ Discuss General Market Deal Pricing

“Science versus Art”

- Ultimately a NEGOTIATED Value by a ‘Willing Buyer & Seller’
  - ✓ Number of Interested Investors
  - ✓ Technology Space
  - ✓ Company Liquidity

Questions?

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Session 4 Tab

As Concept Investments Manager for i2E, Kenneth Knoll oversees all investment aspects of i2E's proof of concept funding programs, including the Oklahoma Concept Fund and the Manufacturing Innovation Fund.

A graduate of the University of Tulsa with degrees in Finance, International Business and Spanish, Kenneth brings to i2E business perspective gained from enterprises both large and small.

Most recently, Kenneth served an internal auditor with ConocoPhillips, one of the world's largest oil and gas companies. As an entrepreneur, he founded a Tulsa-based company while in high school and operated it for more than a decade.

As a student at TU, Kenneth also was team leader in 2007 of Molecuprint, LLC, which won first place in the undergraduate division of the Governor's Cup Business plan competition. While a TU student, he also studied abroad in Alicante, Spain, and served as a TU delegate to INNOVATE 2007, a two-week conference in Shanghai, China and Bangalore, India, that focused on international business.

Certified in Product Innovation & Development, Kenneth combines start-up experience with a systematic development approach inherent to larger corporations.

Kenneth served an internship with i2E in 2008. He and his wife, Andrea, recently relocated to Oklahoma City from Tulsa.

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READY, SET, PITCH!

Presenting your idea to the Investor.

Kenneth Knoll
Concepts Investment Manager

The Goal

- Learn How to Convey Your Opportunity to the Investor
- Guide to the Oral Presentation for the Governor's Cup Competition

Your Tools

- The Business Plan
  – Hour
- The Presentation
  – 20 Minutes
- Executive Summary
  – 5 Minutes
- The Elevator Pitch
  – 30 Seconds

Reverse The Order

- The Elevator Pitch
- Executive Summary
- The Presentation
- The Business Plan

The 30 Second Pitch

You just happen to get in the elevator with a well known investor.

You have 30 seconds on the ride to state your idea.

Hopefully, as the Investor steps out of the elevator, you hear, "Interesting, send me your Executive Summary."

First Sentence

For ___(customers)___ with the problem of ___(problem)____ , we have ___(your idea)_ that can ___(big benefit)__ .

"For transportation companies whose personnel must interpret numerous, often conflicting hazmat rules and regulations, we have developed software that provides the correct interpretation, eliminates human error and reduces the time to prepare a hazmat shipment."

Second Sentence

It's based on __(technology)___ that has the advantage of _(advantage)_ that will allow us to ___(define market success)___ and generate __(5th year sales figure)__ in sales.

"It's an online system based on proprietary, comprehensive software algorithms that allow us to control critical inputs for the hazmat transportation market and generate $50mm per year in sales."

Last Sentence

We have accomplished __(milestone or two)___ and now we are looking for ___(raise)___ so that we can __(milestones from plan)__ .

"We have three years developing the software and prototyped our first units. We are now seeking $250,000 to further develop the software, and begin demonstrating the product to potential customers, partners and investors."

The Presentation

- 20 Minute Opportunity to Present Your Idea
- Pre-scheduled, with Q & A

Assumptions

- The Business Plan is Complete
- Pitch is to an Investor
- Investor may not have read BP
- There is a Q&A at the end

Ground Rules

- Remember, it's a PITCH!
- High Points from Business Plan
- Be Enthusiastic, Be Interesting
- Describe Your OPPORTUNITY!

Ground Rules

- One Minute per Slide
- Four Bullet Points per Slide
- Four Words per Bullet Point
- Less is More – Keep focus on YOU

For Each Slide:

- What is the Point?
- Why should THEY care?
- Use $$'s, not ##'s

Outline - Your Idea

1. Title Slide
2. Problem
3. Your Solution
4. Business Model

Outline - Outside World

5. Market
6. Competition
7. Sales Approach

Outline - Execution

8. Management
9. Operations
10. Development Milestones

Outline - ROI

11. Financial Projections
12. Funding Issues
13. Exit Strategy

Outline - Evaluation

14. Status
15. Risk Assessment
16. Conclusion

Title Slide

- Who are you?
- What do you do?
- Why are you here?
- Say Your 30 Second Pitch
- Contact Information

Problem Slide

- Clearly show the Problem
- Give Examples
- Make it REAL to the Investor
- What is the Pain in $$'s?

Your Solution Slide

- ONE Compelling Solution
- Show Value ($) to ONE Customer
- Be Brief on Technology
- State your Intellectual Property

Business Model Slide

- How Do You Make Money?
- What Do You Sell? To Whom?
- Where Does It Come From?
- Give Price/Cost/Frequency/Volume ($'s)

Market Demand Slide

- Who is your Market?
- How Big is your Market? ($’s)
- Growth Rate?
- Major Trends

Competition Slide

- List Major Competitors
  - Name and Size
- Group Minor Competitors
- Charts Comparing Features Are Good
  - Complete, Honest

Sales Approach Slide

- What are the Market Segments?
- Which Segment Values You the Most?
- How do you reach them?
  - Acquisition Costs?
  - Sales Cycle
- Bottom's Up Sales Forecast

Sales Forecast Slide – *Top Down*

- Top Down- 1% of Market
  - 1% of $1 Billion = $10 million
- Good for Setting Realistic Expectations
- Doesn't Say How You Get There

Sales Forecast Slide – *Bottom Up*

- Independent of Market Size
  - Begins with estimates
    - Five sales calls/week
    - 10% close rate
    - $50,000 /sale
    - Calculates to $1,200,000 / salesperson
- Model can be verified/adjusted

Management Team Slide

- List Major Team Members
- Include Only Relevant Information
- Major Open Positions and Prospects
- Why YOU and Your Team?

Operations Slide

- How will you run the company?
- What do you do in-house?
- What do you outsource?
- How do you Leverage Capital?

Development Milestones Slide

- 4 to 7 Significant Milestones
  - Table or Chart with Dates
- Layout of Operational Plan
  - Product Status
  - Sales
  - Funding Rounds
  - Break-Even

Sample Milestone Chart

		2007				2008				2009		
Description Quarters	1	2	3	4	1	2	3	4	1	2	3	4
Intellectual Property Protection												
Production of Prototypes		V1 &V2				V3 & V4						
Prototype Testing			V1 & V2				V3 & V4					
$500 K Seed Round												
Production Manufacturing												
Marketing and Sales												
Positive Cash Flow												

Financial Projections – 5 Years

	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUE	$36,000	$2,274,000	$7,224,000	$11,400,000	$15,720,000
TOTAL COST	$8,820	$1,047,630	$3,347,880	$5,118,000	$6,941,400
GROSS PROFIT	$27,180	$1,226,370	$3,876,120	$6,282,000	$8,778,600
OPERATIONS	$71,000	$294,700	$761,000	$1,649,950	$2,075,600
NET PROFIT	**($43,820)**	**$931,670**	**$3,115,120**	**$4,632,050**	**$6,703,000**

Funding Slide

- Offering XX Equity Shares for $YYY,000
- Use of Funds
  – 3 to 6 Lines – Big Picture
  – Should Match Development Milestones/Time
  – Details in Business Plan
- Additional Funding Required Later?

Exit Strategy Slide

- What is Your Strategy?
  – Initial Public Offering
  – Acquisition
- Comparisons in Industry?
  – Names of Companies with their Multiples
- Name Acquirers and Give Reasons
- Show Investor the ROI

Status Slide

- What have you accomplished?
  - Development
  - Sales
  - License Agreements
  - Intellectual Property
- How much have you spent?

Risk Assessment Slide

- What are Your Unique Risks?
  - Competition, Adoption Rate, Key Customers?
- What are the Mitigation Strategies?
- Demonstrate Critical Thinking Ability

Conclusion Slide

- List the Most Important Highlights
- Emphasize Potential of Opportunity
- Thank Them for Their Patience
- Q & A?

Preparing for the Pitch

- Prevent Technology Glitches
  - Check for Computer/Software Capabilities
  - Avoid Last Minute Changes
  - Avoid Movies, Internet Links, Etc.
- Practice, Practice, Practice
- Check Dress Code

During the Pitch

- Be Pleasant and Professional
- Listen CAREFULLY to Questions
- Be Open to Suggestions
  - Coachable
- Demonstrate that You're a Good Partner

Questions?

Kenneth Knoll
kknoll@i2E.org

Additional Information

Excerpts from "The Entrepreneurs Path: A Handbook for High Growth Companies"

The Pitch

"Never miss a good chance to shut up."

– Will Rogers

THE PITCH

5

You have emailed your business plans to dozens of angel investors. You've networked wisely with local contacts and are planning for success.

Your elevator pitch and executive summary have provided the opportunity for you to share your business plan. Your business plan has opened the door for you to provide a proven pitch of your business opportunity.

When the opportunity to make a formal business plan pitch arrives, you want to be ready with a thoughtful and well-rehearsed pitch.

The primary audience for your pitch is investors, although, as you progress through the stages of the Entrepreneurial Path, you can adapt your pitch to multiple audiences, including business partners, economic development organizations, and even customers.

When you have the opportunity to make your pitch to potential investors, you must capture their attention in the first minute that you speak. People with money to invest in startup businesses are besieged with "deal flow," a steady stream of business plans and opportunities to invest.

You want your pitch to grab them from the very start and make them eager to learn more about your company, your market, and your management team. The quality of the business opportunity, product, and management team are often judged by the quality of the business plan pitch. If this is beginning to feel like a make-or-break event, that's because it is.

An effective business plan pitch takes 17 to 20 minutes with 16 slides or less. Skip the dramatics. This is not the time to come up with some gimmick. Be enthusiastic and passionate, but never theatrical.

Begin your pitch by telling a story about the problem that your product or service solves. This will grab investors' attention and don't let go. Figure out a way to put your audience in the shoes of someone who will benefit from your product or service. Your goal is to help investors get a picture in their heads about the problem you are solving.

From coaching hundreds of entrepreneurs, we have developed a pitch template and roadmap that kicks off with the Elevator Pitch and concludes with an assessment of the company exit that delivers on investors' desired financial return.

When an entrepreneur really understands his or her business plan, has prepared for questions, and feels confident and comfortable without feeling arrogant, they get better results.

We recommend the following content and order for your business plan pitch. Whatever format you choose, make sure it is consistent with your business plan format.

Title Slide

Market Problem

Your Solution

Business Model and Sales

Market Demand

Competition

Growth Opportunity

Management Team

Financial Projections

Financial Projections Chart

Investment Strategy and Use of Funds

Company Milestones

Milestones – Past & Future Business & Financial

Valuation Chart

Risk Assessment

Exit Strategy

Following is a slide by slide discussion of the content of your pitch.

TITLE SLIDE AND ELEVATOR PITCH

Use ***less than two*** minutes to position the company to the audience. Introduce yourself and your title. State the name of your company, and give the one sentence version of your Elevator Pitch to excite people and provide a quick and concise understanding of your business. Share the company history and why you are there.

TIPS FROM THE TRENCHES

It's so easy to spend too much time on the opening slide. Anticipate and resist this temptation. Do not spend more than one minute, tops. You have less than 20 minutes for your entire pitch. Resist squandering your time.

MARKET PROBLEM

Clearly communicate the "problem" in the market to lay the foundation for the slides that will follow. Provide two examples that will relate to the "unfair" advantage that your solution has.

YOUR SOLUTION

Describe how you know there is a problem or pain in the market. This is the place to share your personal experience from talking with customers. Be sparing, but sprinkle it in. This adds credibility and demonstrates your knowledge of the market needs. What is the problem costing the market? This sets up the value proposition for your solution, which you will present in the next slide.

Describe the essence of your product or technology and how it solves the current problem in the marketplace. You are the doctor–how do you ease the financial or physical pain?

Summarize your solution emphasizing the uniqueness of your product or technology, but DO NOT get mired in the "gee-whiz." Your audience wants to know how you have protected the intellectual property, but at this point, they do not need to know about the details of the technology.

Outline the return on investment (ROI) that your solution offers the customers and how long it will take them to recoup their investment. Focus on the benefits to the customer.

BUSINESS MODEL

Describe how your product or service generates revenue for your company. Does it follow the software as a service (SaaS) model? Do you charge licensing fees? Is it purchase only? The more simplistic the business model, the better. Express your sales and channel strategy. How do you plan to reach initial customers? Do you plan to sell direct? Are there existing distribution channels that would be a good fit for partnering with you?

MARKET DEMAND

Explain why someone would want to pay for your solution. Quantify the estimated market size, including prospective customers, especially early adopters; market segments, and potential sales revenues, but don't get all wrapped up in sky-high numbers. Characterize the key attributes of target customers. Talk about your first-hand experience and explain the reason for market growth over the next three to five years.

COMPETITION

Create a comparison guide of competitors so that your audience can see the landscape at a glance. Include the better funded and more well-known large companies as well as smaller innovative competitors. Don't ignore competitors who have a partial solution. Describe your company's strongest barriers to competitive threats. Be clear about what it will take to get customers to change what they are doing today. Inertia is sometimes the fiercest competitor!

GROWTH OPPORTUNITY

Demonstrate the company growth potential after initial launch. Specify what needs to happen to produce positive cash flow using milestone examples. Use your research and knowledge of the market to illustrate the characteristics of your key market segments, and the nature of market growth. Show the urgency of the need for the product or service you will supply.

MANAGEMENT TEAM

Investors know that execution is everything. You will often hear investors say that they prefer to invest in an "A" management team and a "B" product rather than the other way around. Experience in the target market, growing sales, building teams, and managing capital is a must.

This is your moment to show how strong your team is individually **and** to demonstrate how well you work together as a team. Describe your board of directors and/or advisors, highlighting their strategic value. Use concise bullet points to describe experience. Indicate who is full-time and who is part-time.

CEO: Prior entrepreneurial experience and/or years in a similar business or market

CTO or CMO: Track record in core product or technology area; knowledge of target markets and relationship with the industry

CFO: Prior experience including acquisitions and other exit events.

Identify technical or business advisors, mentors or members of your board of directors and the experience and skills they possess that supplement internal skills.

FINANCIAL PROJECTIONS

Focus on the bottom line. State the amount of capital needed to reach breakeven and profitability. Project realistic revenues. Expect to explain short-term market adoption and penetration, dramatic or hockey stick growth, margins beyond the norm, and any extended periods of negative cash flow.

Chart 5.1
Financial Projections

	Latest Actual Financials	Proected Year 1	Projected Year 2	Projected Year 3	Projected Year 4	Projected Year 5
Revenue	128	1200	5,400	13,600	24,300	36,000
Costs of Goods Sold	82	650	2,200	5,200	9,100	13,300
Gross Profit	46	550	3,200	8,400	15,200	22,700
Gross Profit %	35.9%	45.8%	59.3%	61.8%	62.6%	63.1%
Operations/G&A	151	540	1,780	3,600	6,300	8,100
Income/Loss before Tax	(105)	10	1,420	4,800	8,900	14,600
Inc./Loss before Tax%	-82.0	0.8%	26.3%	35.3%	36.6%	40.6%

INVESTMENT STRATEGY

It is always smart to include a Capitalization Table. This is a table that represents who owns what percentage of the new company. If your company hasn't received equity capital yet, this will be a picture of founders, friends, and family investments and percentages of ownership.

As you bring on investment capital, it is always important to keep your Capitalization Table up to date. For presentation purposes, you can list investors by group.

Split your future capital needs into the appropriate rounds matching the key milestones to be achieved. Highlight in a sentence or two the risks associated with those potential milestones. Your goal is to present an optimistic ***and*** realistic view as you see it today.

USE OF FUNDS/VALUATION

Identify the current burn rate. Identify the major uses of funds for each round up to acquisition or alternate exit scenario. Use of funds should focus on revenue-generating activities or key technical and product development milestones.

Include a valuation chart, which you will understand much better after you complete Chapter 6. Be prepared for tough questioning if your company pre-money valuation exceeds a normal range for the current stage of your company.

Chart 5.2
Use of Funds/Valuation/Investment Strategy

	Pre-Money Valuation	Amount of Funding Sought	Post-Money Valuaiton	Founders	Seed Round Investors	VC Round 1 Invstors	VC Round 2 Investors
Seed Round	1,250,000	500,000	1,750,000	1,250,000 71.4%	500,000 28.6%		
VC Round	3,000,000	1,500,000	4,500,000	2,142,857 47.6%	857,143 19.0%	1,500,000 33.3%	
VC Round 2	4,500,000	2,000,000	6,500,000	2,142,857 33.0%	857,143 13.2%2	1,500,000 3.1%	2,000,000 30.8%

COMPANY MILESTONES

Provide a milestone chart-at-a-glance that illustrates past and future business and financial accomplishments. These milestones relate directly to the use of funds and investment strategy material presented in your previous charts.

Key milestones to include are company formation, technology or product achievements, past and future rounds of capital, positive cash flow, break-even point, and exit event.

Chart 5.3
Milestones

	2006			2007			2008			2009		
	Jan - Mar	Mar - July	July - Dec	Jan - Mar	Mar - July	July - Dec	Jan - Mr	Mar - July	July - Dec	Jan - Mar	Mar - July	July - Dec
Company Formed	●											
$250K Proof-of-concept	●											
Product Prototype		●										
$400K Seed Round		●										
Field tests		●										
$500K Angel Round			●									
1st Production Ship			●									
Positive Cash Flow				●								
$2M VC Round					●							
50M Annualized Revenue						●						
IPO/Acquisition										●		

RISK ASSESSMENT

It is no surprise to investors that entrepreneurial businesses are risky. They want to know that you have realistically analyzed your business opportunity with respect to the key areas of risk. Share your assessment honestly. Tell them what keeps you up at night. Follow the risk segmentation process presented in Chapter 2 of this guide according to product, market, business, finance, and execution risk. Be open and candid about the technical development sales cycle, anticipated adoption rate, cash flows, personnel, competition, and costs.

EXIT STRATEGY/LIQUIDITY

There are three primary positive options for an exit or liquidity event– acquisition, Initial Public Offering (IPO), or fire sale. The third option is definitely not fun! Investors are not interested in being part of the company for life.

Demonstrate that while your interest is in building a viable business, you understand that your investors are looking for an exit and return in three to five years. Express the value proposition for the investors in each of the exit scenarios you discuss. How do they get their money back and what is their return?

There are very, very few IPOs these days. Demonstrate that you understand and accept this reality of the marketplace. If there are any specifics of how acquisition and IPO might apply to your company, share those briefly.

For the acquisition discussion, identify at least two of the most likely buyers and why they would be interested. Describe recent comparable transactions and value. List any relationships that are currently in place between yourself or your company and potential acquirers.

TIPS FROM THE TRENCHES

Bite Your Tongue! Things you never ever want to say!

- ***This is the best deal you will ever see.***
- ***No one else does what we do.***
- ***We are chasing billion dollar markets.***
- ***Our intellectual property is solid.***
- ***We don't have any competition.***
- ***Big corporations are too slow to be a threat.***
- ***Our financial projections are conservative.***
- ***We need 1 percent market share to meet our projections, which are conservative.***
- ***Our margins exceed 10 percent.***
- ***A big corporate partner is about to sign on.***
- ***Key employees will join us at funding.***
- ***Revenues are not our current focus.***

And our favorite...

- ***Several angels and VCs are interested in funding our plan.***

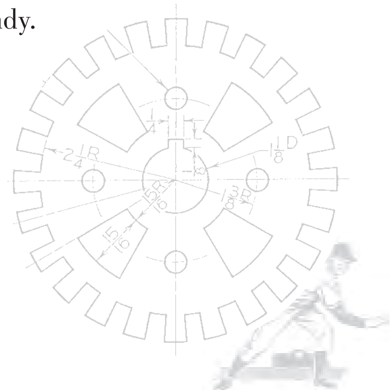
PITCH RULES

Ahead of Time

- Allow a reference to arrange the meeting.
- Rehearse, rehearse, and rehearse!
- Target the right audience; there are big differences between partners, angels and venture capitalists.
- Practice your pitch skills, limit use of the word "um."
- Use four bullets per page, four words per bullet.
- Avoid anything other than simple pictures, graphics and extremely abbreviated text.
- Test your pitch technology ahead of time and onsite.
- Read ***The Art of the Start***, by Guy Kawasaki

Pitch Day

- Show up early and bring only key personnel.
- Wear business attire; no flip-flops or casual dress.
- Be enthusiastic but not annoying.
- Use appropriate social skills, no off-color jokes.
- Express appreciation for the audience's time and interest.
- Keep a pen and notepad handy.



Your Delivery

- Don't read to the audience.
- Don't be dramatic or theatrical.
- Let the audience know how your business makes money.
- You must be knowledgeable of the subject presented.
- Be prepared to answer questions.
- Be open to audience recommendations.
- Demonstrate that you are a "coachable" entrepreneur.

Be Prepared to Answer These Questions

- What problem does your company solve?
- What is the market potential for your product/ service?
- Who is the target user of the product or service offering?
- Why would they purchase your product or service?
- How do you plan to acquire and keep customers?
- Does the company have proprietary intellectual property?
- What makes your business different or unique?
- Who are your competitors?
- What gives your company a competitive advantage?
- What is it about your management team that makes them uniquely capable of executing on this business plan?
- What is the planned "use of funds"?
- When will the company reach breakeven?
- What are the primary risks facing your business opportunity?
- What are the exit scenarios for the founders and investors?

CONCLUSION

How you deliver your pitch is as important as what you say. Your pitch must educate and sell, and it's up to you to achieve the appropriate balance of both. Demonstrate your passion for your business, your customers, and the potential of the marketplace.

Practice, practice, and then practice some more. In front of the mirror, in front of your family, friends, and employees. Seek the advice of mentors and other professionals. Learn from each experience.

Seek out opportunities to talk about your company to an audience before you have the opportunity to present to investors. The practice is invaluable, and you will learn from this experience where you need to improve.

You will learn from the questions your audience does or doesn't ask whether your pitch is a success–and when it is, that's just the beginning. There will be weeks of due diligence and additional pitches before you and potential investors sit down to terms. That's the subject of the next chapter.

KEY POINTS

When the opportunity to make a formal business plan presentation arrives, you want to be ready with a thoughtful and well-rehearsed pitch.

The quality of the business opportunity, product, and management team are often judged by the quality of the business plan pitch.

An effective business plan presentation takes 17 to 20 minutes with 16 slides or less.

The primary audience for your pitch is investors, although, you can adapt your presentation to multiple audiences.

If you don't communicate anything else, create a picture in your audience's minds about how your product or service solves a huge problem or pain in the marketplace.

failsafe
HAZMAT COMPLIANCE

Sample Business Plan for a high growth company

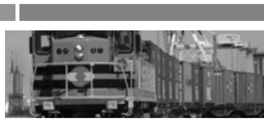
failsafe
HAZMAT COMPLIANCE

Software for Shipping Hazardous Materials Safely

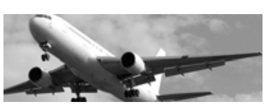
David Thomison Kenneth Knoll

Their Rules, Your Inventory, No Problem

Hazmat is Everywhere



1,200,000 HAZMAT SHIPMENTS PER DAY



Situation - Massively Complex

- **Thousands of Classifications**
- **4 Transportation Modes**
- **4 Regulatory Guidebooks**
  - **49CFR – US Ground, Air, Vessel**
  - **ICAO/IATA – UN Air**
  - **IMDG – UN Vessel**
  - **ADR – UN Ground**

Situation – Potassium Peroxide

- Look up Potassium Peroxide
- Can it ship on a plane?
- How much can I ship?
- What kind of container?
- What type of hazmat label?
- What documents are needed?
- Does this react with other things?
- Etc. Etc. Etc.

Mistakes Kill

- **ValueJet**
  - 110 people killed
  - Litigated Out of Business
  - Negligent Employees Jailed

Symbols	Hazardous materials descriptions and proper shipping names	Hazard class or Division	Identification Numbers	PG	Label Codes	Special provisions (§172.102)	(8) Packaging (§173.***) Exceptions	Non-bulk	Bulk	(9) Quantity limitations (see §§173.27 and 175.75) Passenger aircraft/rail	Cargo aircraft only	(10) Vessel stowage Location	Other
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8A)	(8B)	(8C)	(9A)	(9B)	(10A)	(10B)
	Oxygen generator, chemical *(including when contained in associated equipment, e.g., passenger service units (PSUs), portable breathing equipment (PBE), etc).*	5.1	UN3356	II	5.1		None	168	None	Forbidden	25 kg	D	56, 58, 69, 106

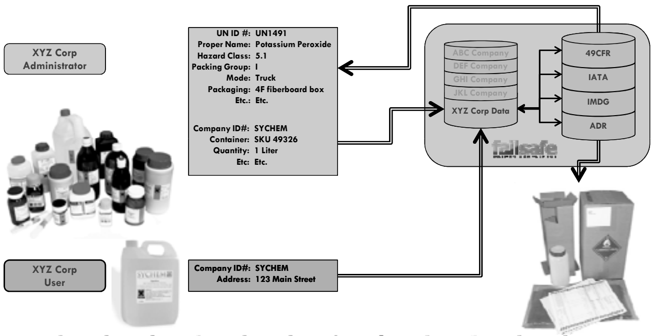
The Failsafe Solution

- **Failsafe matches customer inventory to complicated regulations**
  - Potassium Peroxide = SYCHEM (barcode, sku)
  - No need to look things up in the regulations
  - Dock worker isn't interpreting rules
- **No looking up regulations reduces processing time by 90%**
  - Can Save $1,000,000/year

Business Model

- Software as a Service, Recurring Revenue
- Direct Sales to Major Chemical Companies and Hazmat Shippers
- $10 per User License per Month
  - Dow Chemical has 40 warehouses in the U.S. each with 5 software users
  - Typical Purchase: $2,000/month

Technology and Workflow



Market Demand

$2 Billion Market Opportunity

Competition

Company	Multi-Modal Transport	Regulatory Bodies	Logic Based	Pricing
failsafe	Truck, Rail, Air, Vessel	49CFR, IATA, IMDG, ADR	Yes	Failsafe $10 / License / Month Failsafe By Mode $3 / License / Month
Bureau of Dangerous Goods	Truck, Air	49CFR, IATA	No	ShipHazmat Standard - $895/user ShipHazmat Partial - $725/user ShipHazmat Network - $825/ user ShipHazmat NET - $825/ user ShipHazmat Ground - $150/ user
LABELMASTER	Truck, Rail, Air, Vessel	49CFR, IATA, IMDG	No	$279.00/user
HAZ CAPTAIN	Vessel	IMDG	No	$680/user
Hazmat Software	Truck, Rail, Air, Vessel	49CFR	No	$1,100/user
Dangerous Goods Council, Inc.	Vessel	49CFR	No	$4,200 / user

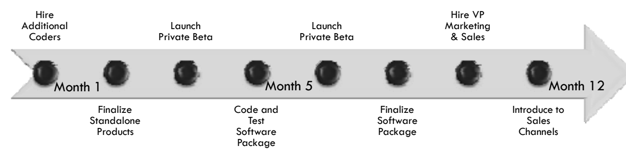
Management Team

- **David Thomison**
  - **19 Years Management in Marketing and Information Technology**
- **Kenneth Knoll**
  - **5 Years Management in Hazardous Material/Motor Carrier Compliance**

Expert Advisory Board

- **Sarah Seagraves**
  - **Director of the CCCAC Hazardous Materials program for the Canada**
  - **President of US DOT**
- **David Daviee**
  - **Daviee Packaging Incorporated**
- **Rex Smitherman**
  - **Senior Hazmat Consultant for BASF (retired)**

Development Timeline



- **Bovine Chem**
  - **Global Chemical Producer**
  - **$27.8 Billion in revenue**
- **US Paint**
  - **Global producer of coatings and chemicals**
  - **$2.6 Billion in revenue**

Sales Status

- Targeting two primary hazmat segments:
  - Chemical Companies headquartered in US
  - U.S. based transportation companies
- Attending 3 upcoming trade shows
- One committed customer for 200 seats
- 14 additional customers expressing interest

Sources & Use of Funds

- **Seeking $125,000 in equity investment**
- **Seeking $100,000 TBFP Loan**
- **Use of Funds**
  - $85,000 Programming
  - $52,000 Marketing and Advertising
  - $69,000 Operating Expenses
  - $19,000 Capital Expenditures
- **Seed Round A of $450k for full Market Launch**

Financial Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
New Accounts / Failsafe	1	5	15	123	242
New Accounts / Failsafe by Mode	154	1 725	11,436	112,846	215,639
Total Sales	17,308	692,071	2,394,127	14,594,853	39,495,430
Gross Profit On Sales	15,908	641,671	2,271,277	13,442,530	37,512,161
Total SG&A Expenses	150,757	621,584	1,581,892	4,377,200	7,784,129
Net Income (Loss) from Operations	(134,849)	20,087	689,385	9,065,330	29,728,032

Managing Critical Risks

- Ease of use critical to market acceptance.
  - 1of 2 companies meeting updated shipper requirements
- Evolving regulations, domestically & internationally
  - Expert management team with critical industry knowledge
- Product liability risk
  - Double-blind method; Integrated audit trails
- Coding overruns
  - Standalone products ensure early stage revenues

Investment Summary

- **Existing Ownership 50/50 among founders**
- **Offering 12.5% Equity Shares for $125,000**
- **Exit by Year 5**
  - Sale to Hazmat Co (LabelMaster) or ERP (SAP, Oracle)
- **20X Return to Seed Investors**

failsafe

20 HAZMAT COMPLIANCE

Great Team

Industry Experts to Make Introductions

Known Customer Interest

Significant Market Opportunity

Session 5 Tab

Governor's Cup
2012

More Cash … More Opportunities

*The **Governor's Cup Business Plan** competition is evolving to bring you more in 2012 … more opportunities to hone your idea with a professional review, more teams moving forward to the presentation round and more cash prizes – nearly 40 awards up for grabs – totaling **$154,000**. So here's the big picture:*

1

The Prep

First up is the Who Wants to Be an Entrepreneur workshop. Designed for college students, this is a no-cost, one-day course on all the essentials of entrepreneurship, from researching a concept, writing a business plan, making financial projections and pitching your concept.

Next, you need to determine an innovative product, process or service around which to build a business plan – then carefully select up to 6 team members from diverse academic disciplines and find a faculty advisor or team mentor who can guide you. You also will want to take advantage of an opportunity to have your idea reviewed by venture development professionals.

2

The Interview

In the real world, ideas don't make it far without input from industry experts. Each competing team will sit down for a 20 minute interview where you will be probed on your knowledge of the concept and you can ask the panel for advice. Teams will be interviewed based on their industry category rather than academic division. There is no presentation, no handouts, no guests … just the team and the panel. This is more than a casual discussion … **$25,000** in prize money is on the line. After the last interview, each panel will rank the teams with the top-ranked team in each category winning **$5,000**. The ranking will later be used to establish a cumulative score that will help determine which teams advance to the oral competition.

3

The Plan

With research and writing complete, now it's time to submit your plan online. Written business plans will be judged by investment, business and community leaders, who will score the plans and provide feedback that can be used by teams to improve their presentation should they advance to the next round. Scores from the business plan judging will be paired with rankings from the Interviews, and cumulative scores will be used to determine the 24 semifinalists – 12 Graduate and 12 Undergraduate. This round is worth **$36,000**, with each team that advances earning **$1,000** and advisors/mentors **$500** each.

4

The Presentation

It all comes down to this with **$80,000** on the line. As one of 24 semifinalist teams you will make a 20-minute investor presentation about your business opportunity. Your delivery, content and ability to field tough questions by the judges will earn you the opportunity to advance to the final round of presentations. Finalists will be announced at a networking reception at the conclusion of the semifinalist round of presentations. The judges' comments will be provided after the announcements so teams can review that evening and prepare for the next day's final round. A representative from each of the finalist teams will also make a 90-second pitch worth an additional **$5,000**. Simultaneous to the oral presentations will be interviews for the Oklahoma Business Roundtable Paulsen Award, which provides two students with a **$5,000** scholarship that can be used for tuition on any Oklahoma college campus.

5

The Rewards

Winners of the Governor's Cup competition will be announced at a gala Awards Dinner before an audience of 500. The top two teams in each division will go on to compete in the Tri-State Competition in Las Vegas, where an additional **$90,000** will be awarded. That's more than **$250,000** in cash prizes – plus scholarships – that will be awarded. But the sum of all the parts of the Governor's Cup is bigger than the cash or even the bragging rights. It is networking, job opportunities, life-long relationships and an experience that will help guide you as you continue your journey down the entrepreneur's path.

www.okgovernorscup.org.

About the Governor's Cup

The Donald W. Reynolds Governor's Cup is a statewide collegiate business plan competition that simulates the real-world process of entrepreneurs creating a business plan and making a pitch to solicit start-up funds from potential investors.

In its first seven years, the Governor's Cup attracted more than 290 innovative ideas from 26 campuses across the state. Altogether, more than 950 students have tested their entrepreneurial skills while competing for more than $1.2 million in cash.

New for 2012 is *The Interview* in which every competing team will sit down for a face-to-face interview with experts in their particular industry category. There is no presentation, no handouts, no guests, just the team and the panel. Teams will be expected to display their knowledge of their business and competitive advantages, articulate the business model and how the business makes money, and display competency across the team. The top-ranked team in each of five industry categories will earn $5,000. The interview rankings also will be combined with results from written business plan judging to establish a cumulative score in later stages of the competition.

Additionally, 24 teams will be selected to make oral presentations in the semifinal round earning them $1,000, with advisors receiving $500 each.

Total prize money awarded in the 2012 competition will be $154,000. Other cash awards include the Oklahoma Business Roundtable Paulsen Award scholarships and the Al Tuttle Business Incubation Award. Another $90,000 will be on the line in the Tri-State competition in Las Vegas for the first and second place graduate and undergraduate Oklahoma winners.

The Governor's Cup is underwritten by the Donald W. Reynolds Foundation and local partners, and is managed by i2E.

The competition continues to send the message that Oklahoma has the resources, talent and the fortitude to retain our emerging entrepreneurs and build an innovation economy. It has helped to establish companies, encouraged students to continue their education and provided networking and career opportunities.

Eligibility

The intent of this competition is to expose students to real world experiences and to enhance their entrepreneurial skills while expanding career options after graduation to include entrepreneurship and starting their own company.

The competition is open to all faculty- or mentor-sponsored, full-time and part-time undergraduate and graduate students enrolled at any of Oklahoma's universities or colleges. Students who graduate in December prior to the competition are still eligible to compete.

The role of the Advisor for the purpose of the competition is largely administrative. The Advisor provides confirmation of the eligibility of the students, enforces competition rules, and is a point of contact for the competition managers. In addition they are expected to provide guidance in researching, writing and presenting the business plan. Advisors can be faculty members or community mentors.

It is not the intent of the competition to be a turnkey commercialization program. In most cases entrepreneurs need years of professional experience before launching a new venture.

Business Plan Requirements

-The business plan must be for a high growth seed, start-up, or early stage venture and must address the entire business concept including implementation.

-At least one team member must have a key role in the company's management team.

-Ineligible are proposals for the buy-out or expansion of an existing company, tax-shelter opportunities, franchise, real estate syndications, and other consulting projects and analyses.

-Teams composed of at least one student enrolled in the graduate school must compete in the graduate competition even if undergraduates are members of the team. If they graduate in December prior to year of competition they are still eligible to compete.

-The business plan must commercialize a new technology product, service, or process, or apply an existing technology in a novel way. This may include an application of technology in the production or distribution of industrial or consumer goods or in retail or service business.

Technology-based, for the purpose of this competition, means any one of the following:

- **Healthcare**
  This encompasses the life sciences broadly, including pharmaceuticals, biotechnology and medical devices. Subsets of the category include life systems technologies, nutraceuticals, and cosmeceuticals.

- **Information Technology/Communications**
  Information technology refers to anything relating to computing and the retrieval, storage and transmission of data, including networking, hardware, software, the Internet or the people who work in these technologies. It can include Internet retail concepts (eCommerce), Web apps, electronics, robotics and applied mechanics. Communications includes telecommunications, devices for transmitting and receiving voice and data, both wired and wireless as well as networks that tie different devices together. Subsets of both information technology and communications can include systems for communicating between health care databases, storing medical information or ways of collecting and processing payment information.

- **Manufacturing, material sciences and transportation**
  Manufacturing includes both the process and the machinery used to turn raw materials into a finished product.

  Material sciences are important to many engineering fields such as electronics, aerospace, telecommunications, information processing, nuclear power and energy conversion. It includes materials composed of metals, ceramics, plastics and carbon-based nanoparticles.

  Transportation includes vehicles that move people and cargo, as well as systems and devices that enhance vehicles or assist in transportation. That can include roads, rails, air, water and even space.

- **Energy and Environmental**
  Energy refers to technologies and processes that enable the efficient recovery of oil and gas or the generation and delivery of power through alternative means such as wind, sun and bioenergy sources that are derived from plant-based or waste materials.

  Environmental, also known as "green technology," includes devices, materials and techniques for reusing, recycling, reducing or reclaiming of resources, reducing energy consumption, etc.

-The business plan and presentation must represent ONLY the original work of each official team member indicating them as the authors of the plan. Business plans developed through previous programs or classes of which other students, mentors or interns have developed presentations or plans on the same technology are not eligible.

-Be sure to review the Sample Business Plan and other resources available, read the Rules and review the Written Presentation Scorecard, Oral Presentation Scorecard, and Sample Pitch to ensure your work follows the criteria.

CASH Awards

The Interview- $25,000

Each competing team will sit down for a 20-minute interview with experts in their particular industry category. Teams will be expected to display their knowledge of their business and competitive advantages, articulate the business model and how the business makes money, and display competency across the team.

There is no presentation, no handouts, no guests, just the team and the panel. Teams will be interviewed based on industry rather than academic division. After the last interview, the panel will rank the teams with the top-ranked team in each of five industry categories winning $5,000. The ranking will later be combined with scores from written business plan judging to establish a cumulative score that will help determine which teams advance to the oral competition.

Interview Cash Awards

- Healthcare, $5,000
- IT/communications, $5,000
- Energy/environmental, $5,000
- Manufacturing, materials and transportation, $5,000
- Student generated, $5,000

Semifinalists Cash Awards

A Semifinal selection for both Graduate and Undergraduate divisions will be posted online and an email notification will be sent to the Team Leaders and Advisors with judges' comments.

Cash awards of $1,000 and an Achievement Certificate will be given to each of the Semifinalist teams at the Networking Reception, April 13, 2012.

	Graduate	Undergraduate	Advisor
Semifinalists	$1,000 each (12 teams)	$1,000 each (12 teams)	$500

From the 12 Semifinalist teams, six Finalists in each division will be selected by a panel of judges after the first round of oral presentations. The Finalists will then compete for the 1st, 2nd and 3rd place Grand Prizes in the final round of the competition. The winners will be announced at the Governor's Cup Awards dinner on April 19, 2012.

Grand Cash Awards

Winners	Graduate	Undergraduate	Advisor
1st Place	$20,000	$20,000	$2,000
2nd Place	$10,000	$10,000	$1,500
3rd Place	$5,000	$5,000	$1,500

Pitch Cash Awards

All finalist teams will choose a team member to give a 90-second pitch on their business plan. Pitches will be made directly after the teams' oral presentation on Saturday, April 14, in a separate room. The pitches will be video recorded, with winning teams from each division receiving $2,500 each.

	Graduate	Undergraduate
Winning Pitch	$2,500	$2,500

Tri-State Competition

Each Undergraduate and Graduate first and second place winners from Arkansas, Nevada and Oklahoma will compete in a one day oral competition for an additional $90,000 in cash prizes. Each team will give a live 90 second pitch at the awards dinner and a winner in each division will receive $1,000 cash.

	Graduate	Undergraduate	Advisor
1st Place	$25,000	$25,000	$2,500
2nd Place	$15,000	$15,000	$2,500
3rd Place	$0	$0	$0

Additional Awards

The Paulsen Awards

The Oklahoma Business Roundtable will award two scholarships in the amount of $5,000 each. All students competing in the Governor's Cup are eligible to apply.

The Al Tuttle Business Incubation Award

The Al Tuttle Business Incubation award provides one graduate level business team business incubation space and services for one year.

2012 Timelime

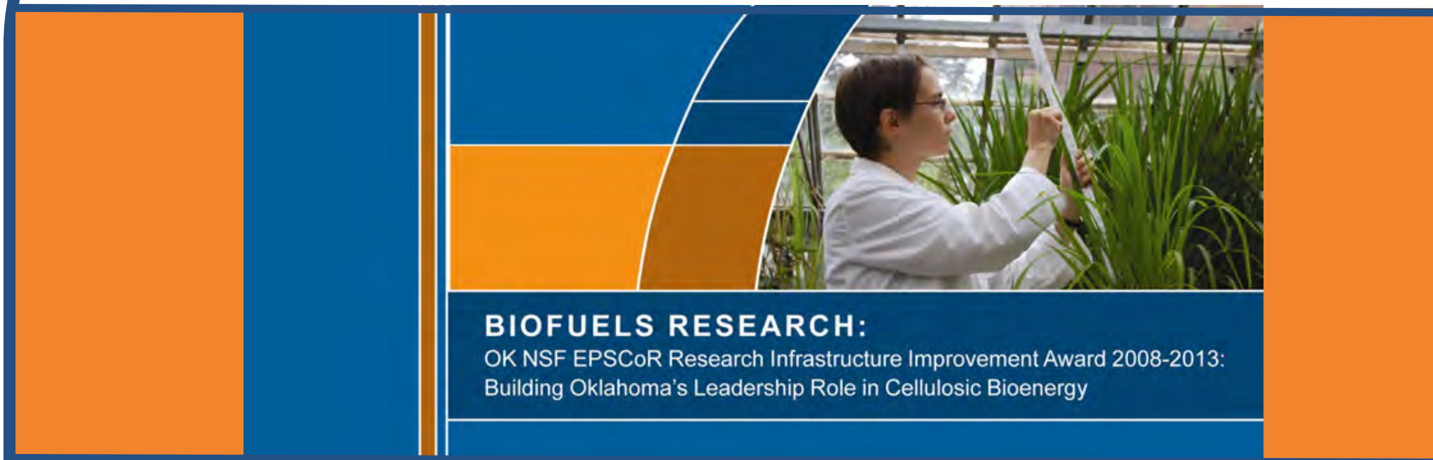
September 30	Who wants to be an Entrepreneur? Workshop
December Break	*Independent Review- not required, no scoring*
February 6	*Independent Review- not required, no scoring*
February 13	**Official Application Form Deadline**
February 24	**The Interviews in OKC**
March 9	**The Plan** Written BP & Submittal Form Deadline
March 12	*Written BP Judges Meetings*
March 12-19	*Plans undergo Independent Review process*
March 19	Semifinalists Announced
April 9	Revised Plan, Presentation and Submittal Form Deadline
April 11	*Oral Competition Judges Meeting*
April 13	**The Presentation- 2 day event** 12 Undergraduate and 12 Graduate Semifinalists Paulsen Award Finalist Interviews
April 13	Governor's Cup Networking Reception
April 14	6 Undergraduate and 6 Graduate Finalists Finalist Pitch Competition
April 16	Announce Pitch Finalists
April 19	**Governor's Cup Awards Dinner**
TBD	**Tri State Competition- Las Vegas, Nevada**

Session 6 Tab

About our Sponsors

Without the support of these local organizations we could not bring you the Who wants to be an Entrepreneur? Workshop.

So we thought you might want to know a little bit more about them and be sure to thank them for their support.



UPCOMING EVENTS

October 1, 2011	**OK L-SAMP 17th Annual Research Symposium** Noble Research Center, OSU Campus Stillwater, Oklahoma
October 4, 2011	**Women in Science Conference** Science Museum Oklahoma Oklahoma City, Oklahoma
October 11-12, 2011	**Supercomputing Symposium** Thurman J. White Forum Building, OU Campus Norman, Oklahoma
October 24-27, 2011	**NSF EPSCoR National Conference** The Coeur d'Alene Resort Coeur d'Alene, Idaho
November 4, 2011	**OK Research Day for Regional Universities** Cameron University Lawton, Oklahoma
March 15, 2012	**Research Day at the Capitol** State Capitol of Oklahoma Oklahoma City, Oklahoma

For more information on these and other EPSCoR-sponsored programs

visit www.okepscor.org

or call Gina Miller, outreach coordinator, at 405.744.9964
or email gmiller@okepscor.org

Current Active Oklahoma EPSCoR/IDeA Awards

Agency	Program	Award Amount	Type of Award
NSF	EPSCoR	$23.8 million	Research Infrastructure (2 awards)
NIH	IDeA	$19.6 million	INBRE (1 award)
NIH	IDeA	$63.5 million	COBRE (6 awards)
DoD	DEPSCoR	$6.8 million	Applied Research (9 awards)
NASA	EPSCoR	$3.8 million	Research Infrastructure (3 awards)
DOE	DOE EPSCoR	$2.5 million	Implementation Grant (1 award)

What is EPSCoR and IDeA?

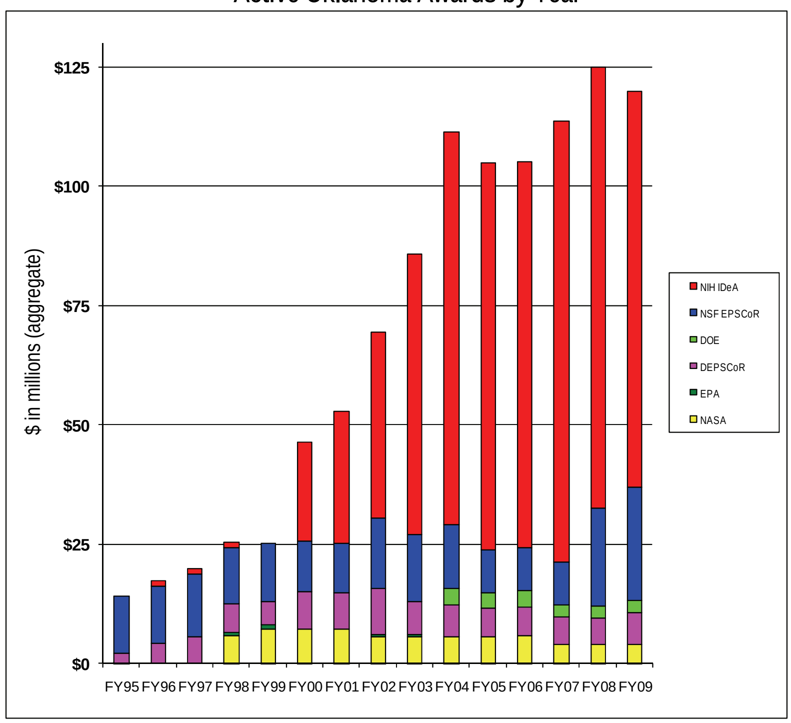
Federal EPSCoR (Experimental Program to Stimulate Competitive Research) and the NIH IDeA (Institutional Development Award) programs provide funding for science and technology research to states that historically have been less competitive for federal R&D funding. The programs are merit-based initiatives geared to improve research competitiveness. Oklahoma is one of 29 states/jurisdictions participating in EPSCoR programs administered by the National Science Foundation (NSF), the National Institutes of Health (NIH), the Department of Defense (DoD), National Aeronautics and Space Administration (NASA), the Department of Energy (DOE), the Environmental Protection Agency (EPA), and the United States Department of Agriculture (USDA). Through competitive peer review, these programs allow states to stimulate cutting-edge research initiatives that generally include collaborations among institutions. The broad objectives of EPSCoR and IDeA are to build state research capacity, to fuel economic development and to provide students with access to higher education opportunities.

www.okepscor.org
www.okinbre.org

Five-Year Return on Investment

The Oklahoma State Regents for Higher Education administers the Oklahoma EPSCoR Program. The Chancellor serves as the Chair of the EPSCoR Advisory Committee. Since FY05, the Oklahoma State Regents for Higher Education have invested $12.2 million for EPSCoR projects. University participants in Oklahoma EPSCoR programs over this time period have invested $6.3 million towards EPSCoR projects in Oklahoma, in addition to long-term faculty committments. The five-year award total for Oklahoma EPSCoR is approximately $129 million in aggregate funding.

Active Oklahoma Awards by Year



Activities and Events

OK Museum Network Mobile Science Vehicle
Women in Science Conference
Bioenergy Summer Technology Academies
Oklahoma Research Day for Regional Universities
Research Experiences for Undergraduates
Annual State Conference
NSF Grants Workshop
Research Opportunity Awards
OU Supercomputing Symposium
OCAST Industry Internships
"Who Wants to be an Entrepreneur" Workshop
Research Day at the Capitol
INBRE Undergraduate Summer Research Program
Faculty Collaborative Grants
Faculty Mini Grants
Faculty Equipment Grants
Faculty Release Time
Mini Medical School
K-12 Outreach

Meet the Director

In January 2010, Dr. Jerry Malayer became the Director of Oklahoma's EPSCoR. In this position, he coordinates Oklahoma's research activities for federal EPSCoR programs and the NIH INBRE Program. Dr. Malayer is the Associate Dean for Research and Graduate Education in the Center for Veterinary Health Sciences at Oklahoma State University. He is a Professor in the Department of Physiological Sciences in the College of Veterinary Medicine. Dr. Malayer also serves on the Board of Directors for the EPSCoR/IDeA Foundation, a national organization that works with states and agencies that participate in the federally-sponsored EPSCoR and IDeA programs with a goal to increase awareness, visibility and participation of EPSCoR and IDeA states in the nation's scientific and technological enterprise.

Oklahoma EPSCoR/IDeA Award Highlights on Back

Oklahoma EPSCoR/IDeA Award Highlights

NIH IDeA

IDeA Network of Biomedical Research Excellence (INBRE)

$19.6 million (FY09)

NIH IDeA awarded Oklahoma approximately $19.6 million over five years beginning May 2009 to establish an IDeA Network of Biomedical Research Excellence, with the goal of increasing the number of NIH-funded scientists in biomedical research statewide. The OK INBRE encompasses fifteen higher education institutions, including five research institutions, six primarily undergraduate campuses and four community colleges. The OK INBRE supports major research projects in the areas of microbiology and immunology, cancer, and developmental biology. Cores and facilities include a Bioinformatics Core, supporting the science of understanding the structure and function of genes and proteins through advanced, computer-aided statistical analysis and pattern discovery; an Imaging Core that conducts research using live animal magnetic resonance imaging; and an Outreach Core that will increase the number of undergraduates involved in STEM research programs.

Centers of Biomedical Research Excellence (COBRE)

$10.8 million (FY08)

In 2007, Oklahoma was awarded it's 7th COBRE grant. The University of Oklahoma Health Sciences Center (OUHSC) is the recipient of five years of funding for "Mentoring Diabetes Research in Oklahoma." The project will expand the diabetes research program in Oklahoma and form partnerships with tribal communities to improve research and intervention for diabetes.

$10 million (FY08)

In 2007, the OUHSC received a five-year renewal to its COBRE grant "Mentoring Vision Research in Oklahoma" which will bring an enhancement of knowledge to the treatment and prevention of debilitating and blinding eye diseases, as well as neurodegeneration and bacterial infectious diseases. The grant is a collaboration of comprehensive research universities and Langston University.

$18.7 million (FY05)

Two COBRE grants awarded in 2000 received an additional five years of funding in FY05 each at levels of approximately $9.5 million from NIH and $100,000 in matching funds from the Oklahoma State Regents for Higher Education. One award at OUHSC establishes the Center for Functional Genomics/Proteomics for Bacterial/Host Interactions and examines how infectious microorganisms cause disease and how the human host responds to this infection. The second grant, "Mentoring Immunology in Oklahoma: A Biomedical Program," was awarded to the Oklahoma Medical Research Foundation (OMRF) and provides mentoring to junior faculty, starter grants and joint research projects.

$12 million (FY04)

This $12 million award for "Molecular Mechanisms and Genetics of Autoimmunity" supports exploration of the genetic association in pediatric patients with systemic lupus erythematosus, among other research projects. The project will provide a much deeper understanding of autoimmune diseases and will foster the development of junior investigators.

$20 million (FY03)

In FY03, Oklahoma received awards for two COBRE grants, one to OUHSC and one to OMRF. At OMRF the $10 million grant "Post-Translation Modifications in Host Defense" focuses on projects involving glycosylation, the addition of sugar chains to molecules during or after synthesis. At OUHSC, the project "Biofilm Formation and Metabolism on Dental Surfaces" is taking a multidisciplinary approach to study microbial biofilm formation on natural and artificial dental surfaces.

NSF EPSCoR

Research Infrastructure Improvement Award

$20.5 million (FY08)

NSF awarded Oklahoma $15 million, with additional matching funds of $5.5 million from the Oklahoma State Regents for Higher Education, for a Research Infrastructure Improvement Award. The five-year grant provides the resources necessary for the state to become nationally competitive in biofuels research. The biofuels project will seek to enhance the production of ethanol from switchgrass, with emphases on increasing plant biomass yield and on enhancing the conversion of biomass to ethanol by both microbial and thermocatalytic methods. This proposal builds on both genomics and nanotechnology infrastructure developed during the current and previous NSF EPSCoR awards.

NASA EPSCoR

In October 2009, Oklahoma was awarded $750,000 over three years from NASA EPSCoR for "Next Generation Composite Materials for Aerospace and Exploration Systems." The OSRHE are providing $150,000 and participating universities are providing $487,756 in matching funds for the award. In August 2007, Oklahoma was awarded $1.9 million over three years from NASA EPSCoR for three awards. The OSRHE is providing $939,000 and participating universities are providing $1 million in matching funds for the awards. The funding supports three awards for research infrastructure development, a Center for Lightning Advanced Studies and Safety, and research on space crew dosimetry and space radiation environment.

DOE EPSCoR

In July 2007, Oklahoma State University received a three-year renewal award from the DOE EPSCoR program in the amount of $1.3 million, matched by $525,000 from the OSRHE and $870,000 from the participating institutions for a Center of High Energy Physics. The Center is a collaboration between OSU, OU Norman and Langston University.

DoD DEPSCoR

For FY09, the DoD DEPSCoR program awarded Oklahoma research university investigators $2.1 million, matched by $300,000 from OSRHE and $666,000 from participating universities for four projects from OSU and OU Norman.

Contact Oklahoma EPSCoR

www.okepscor.org www.okinbre.org

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Office of
Entrepreneurial Development

Contact: Josh O'Brien, Director of Entrepreneurial Development **E-Mail:** jobrien@i2E.org **Phone:** 405-813-2412

OVERVIEW

The Office of Entrepreneurial Development is a joint initiative between i2E, Inc., and the Greater Oklahoma City Chamber to provide resources and assistance for entrepreneurs in high growth sectors. The new office works closely with i2E's entrepreneurial development efforts such as the Donald W. Reynolds Governor's Cup collegiate business plan competition, along with initiatives to develop further support services for entrepreneurs.

STRATEGIC FOCUS

The Office of Entrepreneurial Development was created in early 2011 as a two-year collaborative agreement between i2E and the Chamber to enhance programs that support the growth of Oklahoma entrepreneurs and innovation-based industries. The office enhances that support in the following ways:

- Sustains networks and programs that support entrepreneurs and high growth companies;
- Increases access to risk capital for Oklahoma entrepreneurs;
- Supports the development of future entrepreneurs through business plan competitions, fellowships and conferences;
- Raises awareness of entrepreneurship and helps create a climate that encourages the launch and success of high growth companies;
- Supports the development of Angel investment and other risk capital; and
- Provides communications that include newsletters, public relations, website resources and related materials.

SPECIFIC PROGRAMS

Here is a partial list of specific programs and initiatives to which the Office of Entrepreneurial Development supports, develops and raises funds:

- Federal funding to Oklahoma entrepreneurs through the Small Business Innovation Research (SBIR) program;
- Hands-on assistance to networking events and educational programs that enhance the profiles of Oklahoma entrepreneurs and brings them together with investors, students, faculty and state policy makers;
- Sponsorship of the Donald W. Reynolds Governor's Cup business plan competition based on high growth enterprises for Oklahoma college students; and
- Sponsorship of an Angel funding competition that more directly connects the growing angel investor network to entrepreneurs in high growth sectors.

i2E Managed Funds
Access to Capital

Website: www.i2E.org/access-to-capital **E-Mail:** contact@i2E.org

i2E offers a continuum of investment capital for Oklahoma's emerging high growth companies over a wide spectrum of the business lifecycle, from the earliest conceptual stage on through to the growth stage where companies have both a product, revenue and customers. Here's how i2E's access to capital services will flow through the stages of company development:

Oklahoma Concept Fund: As a part of the Oklahoma Seed Capital Fund, these investment dollars target companies still in the conceptual stage that don't yet have an actual product. The investment capital will allow them to transition an idea to a working prototype and/or validate the value to the targeted customer in order to evaluate the business concept.

Oklahoma Seed Capital Fund: This seed stage fund targets companies that may or may not already have customers, some revenues and a scalable product. The investment funds enable them to build a business infrastructure around their concept or product.

StartOK Accelerator Fund: This fund invests in companies that are in the earliest stages or startup stage that have not yet generated any revenue or completed a market launch. This capital will enable them to take their concept or product prototype into beta test phase with potential customers or first sales.

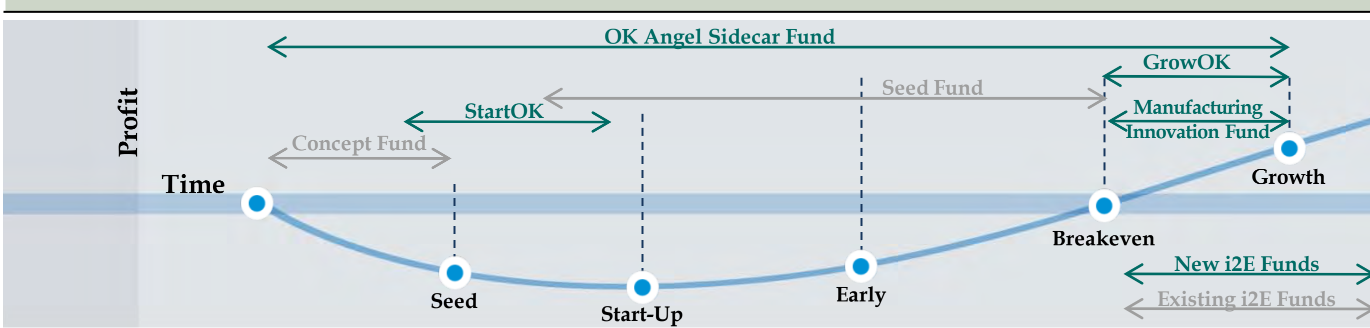
GrowOK Fund: This fund seeks established companies with existing products or services that are generating revenue in the market place. The fund will enable these companies to expand new products or services and allow even more growth in both revenue and employees.

OK Angel Sidecar Fund: This fund overlays all four of the i2E companion funds, providing leverage and capital to angel investment in Oklahoma companies at any stage of the continuum of business development. This fund essentially doubles the size and scope of angel investment in Oklahoma because it requires a one-to-one co-investment from angel investors and/or angel groups.

Manufacturing Innovation Fund: This is a pilot program that provides debt financing for established Oklahoma manufacturers. Financing through this program will allow them to innovate or expand with production of a new product or improve an existing product. Loan repayments will support subsequent future financings through the fund.

SeedStep Angels: This is a network of more than 20 successful Oklahomans who provide capital, strategic advice and mentoring to emerging growth companies to help them succeed. Typical investments range from $50,000-$500,000 with individual members making investment decisions.

i2E CAPITAL FUNDING STAGES




#1 PLACE TO LAUNCH
"THE NATION'S MOST STARTUPS"
PER 100K ADULTS
— KAUFFMAN FOUNDATION

OKLAHOMA
BUSINESS ROUNDTABLE
BUILDING A STRONGER OKLAHOMA

The Oklahoma Business Roundtable serves as the state's major economic development support organization.

Comprised of over 115 top Oklahoma corporations and business organizations, the Roundtable provides important business development advice and assistance to the Governor, the Oklahoma Department of Commerce and other state leaders. Private funding is needed for business development efforts when state appropriated funds cannot be used.

The Roundtable helps fund important business promotion activities to spur the expansion and recruitment of new business in Oklahoma. Roundtable members also play a key role in contacting and hosting both domestic and international clients.

To date, the Roundtable has provided support for hundreds of state and regional economic development promotional activities resulting in over 500 corporate investments throughout Oklahoma.

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The Oklahoma Center for the Advancement of Science and Technology (OCAST) is the state's only agency whose sole mission is the development, transfer, and commercialization of technology. The overarching goal of OCAST is to spur Oklahoma technology-based innovation by offering a pipeline of funding and service programs that have become a national model. OCAST fosters development of new technology or innovative uses of existing technology from concept to commercialization. In contrast to states where such efforts are fragmented among numerous entities, in Oklahoma these programs are all administered "under one roof". OCAST has nationally recognized initiatives in: competitive funding for R&D in industry and Oklahoma's research entities; university-business internship programs; industry/researcher collaborations; technology commercialization; manufacturing extension; inventors' assistance; and financial and technical assistance with pursuing federal funding opportunities. These programs have been developed to be dynamic and thereby able to keep pace with the ever-changing needs of industry and academia.

OCAST was designed as a small, high-impact agency funded by state appropriations and governed by a board of directors with members from both the private and public sector. All OCAST programs benefit from standing advisory committees that consist of members from industry and academia.

OCAST operates in partnership with organizations across the state including private industry, higher education, Oklahoma Department of Career and Technical Education, and the Oklahoma Department of Commerce. Additionally, OCAST collaborates with strategic contracting partners – The Oklahoma Manufacturing Alliance, i2E Inc., and the New Product Development Center at OSU – to expand its network of resources, expertise, and funding initiatives.

Since the agency's inception in 1987, OCAST has seen a $3.9B return on $ 196M in investments in Oklahoma technology – a ratio of nearly 19:1.

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