U.S. Securities and Exchange Commission
Office of the Advocate for Small Business Capital Formation

I've raised early-stage capital. What comes next?

After raising pre-seed and/or seed funding, companies may seek to raise Series A or B or other subsequent rounds of financing.

What growth pathways are available for companies that have already raised early-stage capital?

The following considerations may help guide you as you look to raise later-stage capital raising.

Raising Additional Rounds of Capital

In addition to equity in your business, investors at later fundraising stages may expect some degree of operational oversight. This underscores the importance of working with investors with whom you feel comfortable. In return for their investment, investors may want one or more board seats and generally greater involvement in your business's strategic direction.

Some questions to consider include:

- Do the potential investors specialize in your industry?
- Do they typically invest at the stage of fundraising in which you are engaged?
- Is the amount you are seeking in line with the potential investor's typical investment amount? Does the potential investor typically invest in companies in your stage of growth? For example, many funds have policies regarding minimum investment size and the growth stage of companies in which they will invest.
- Beyond their investment, does the investor offer any services that you find particularly valuable?
- Do you have a have a timeline in mind to provide liquidity to investors?

Investment Terms and Conditions

Consider how the terms of your potential offering may affect your business going forward.

Some questions to consider include:

- How much capital are you looking to raise?
- What types of securities are you offering? If you are offering stock or other types of interests, will they carry voting rights?
- Are you giving your investors board representation? How many seats?
- Which existing owners will have their interests diluted?
- Do you have agreements with current investors that will affect future terms, such as anti-dilution provisions?
- Do you or should you have an employee equity compensation plan? If so, which existing owners will be diluted if securities are issued under this plan?
- Will any current shareholders—such as founders, early employees, or earlier-stage investors—want to sell any of their securities as part of this fundraising round?

Capital Raising Pathways

A business may not offer or sell securities unless the offering has been registered with the SEC or falls within an exemption from registration.

While the capital raising industry often distinguishes between funding rounds by type of investor or series round, the federal securities laws do not differentiate in the same way. That means that regardless of whether the company calls it "early-stage," a "friends and family round," "angel round," "seed round," "Series A," or any subsequent or "later-stage" round of funding, the company must structure the deal to fit within one of the regulatory exemptions if it wishes to avoid having to register the offering.

The most commonly used exemption is Rule 506(b) of Regulation D, but there are multiple exemptions available for small businesses at various capital raising stages.

These are only a handful of items that you may want to consider as you chart your fundraising path. Who invests in your company and the terms of those investments may have long-term effects on any future fundraising rounds and/or future "exits."

Have suggestions on additional educational resources? Email smallbusiness@sec.gov.