Financial Workshop for Entrepreneurs

Black Ambition

December 5, 2024

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

U.S. Securities and Exchange Commission
Office of Minority and Women Inclusion

U.S. Securities and Exchange Commission
Investor.gov

Roadmap

WHO IS THE SEC, AND WHY ARE WE HERE?

- OFFICE OF INVESTOR ADVOCACY AND EDUCATION
- OFFICE OF THE ADVOCATE FOR SMALL BUSINESS CAPITAL FORMATION

FUNDING A SMALL BUSINESS

ACCESSING CAPITAL FROM INVESTORS

WHAT DOES THE SEC HAVE TO DO WITH ME OR MY SMALL BUSINESS?

U.S. Securities and Exchange Commission

Three-part Mission

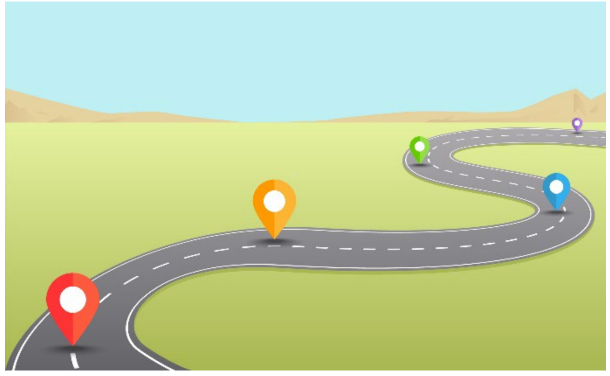
- Protect investors
- Maintain fair, orderly and efficient markets
- Facilitate capital formation

SEC Office of Investor Education and Advocacy

A Roadmap to Building Wealth Through Saving and Investing

For many, the primary means of building wealth over a lifetime is through homeownership and long-term investing. When considering investing, there is a roadmap:

1) Pay Down High Interest Debt and Live Within Your Means
2) Get Banked and Have an Emergency Fund
3) Set Up Regular Contributions to an Investment and Keep Doing That Over a Long Period of Time



Building Wealth Outside Your Business

- Diversification, or how much of your net worth is in your business?
- Retirement and other long-term goals
- Consider: employees & recruiting
- Some account types:
  - IRAs: Traditional & Roth; Simple and SEP
  - Solo 401(k)
  - 529s (new features in Secure Act 2.0)
  - Other accounts, including savings

Accounts: Talk to your Accountant!

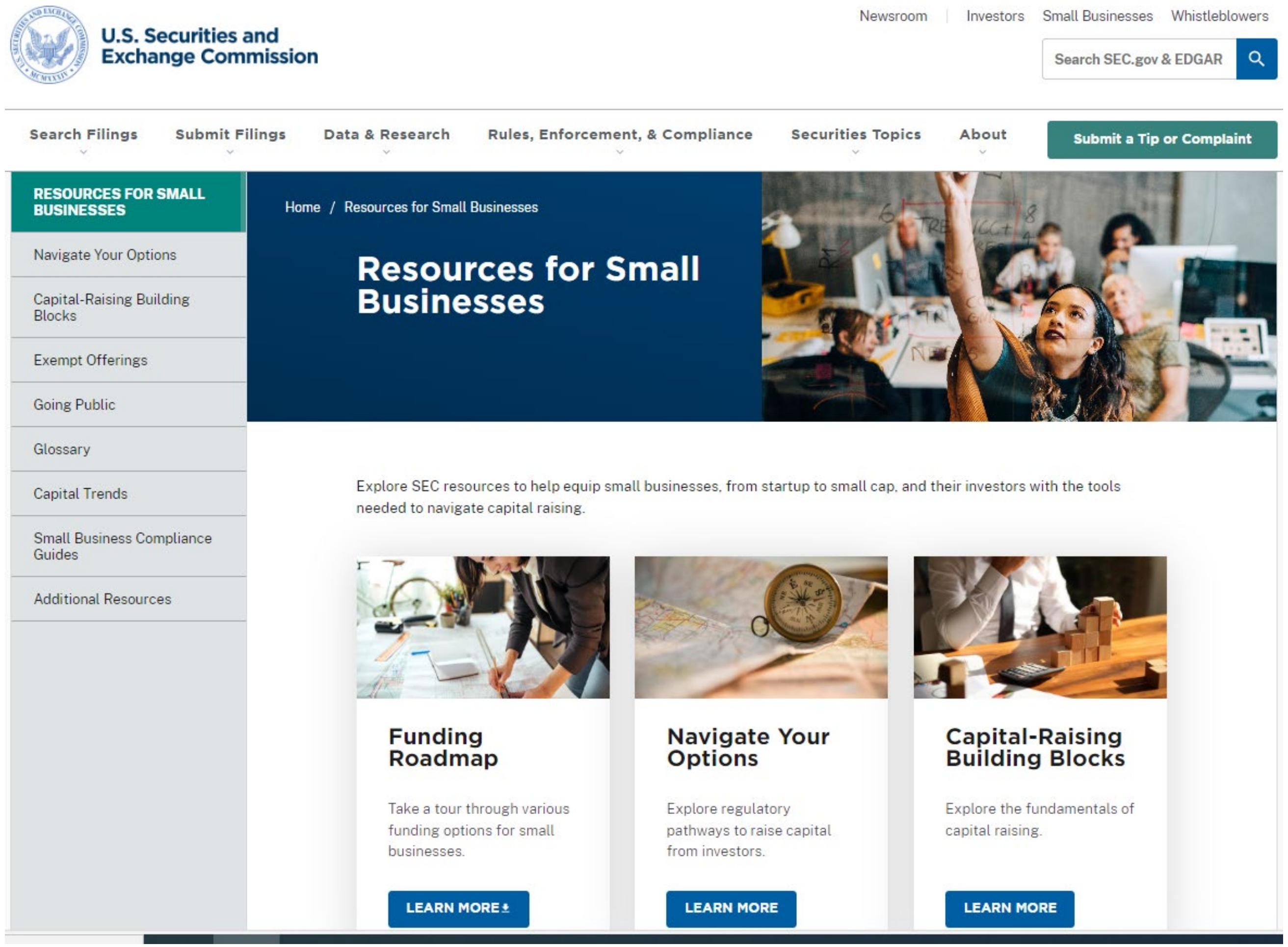
- IRAs: Earned Income
  - Early Days? Spouse's income counts.
  - Traditional vs. Roth
- SEP IRA: "Simplified Employee Program"
  - Employers (only) contribute <25% of comp., same % for all. Roth.
- SIMPLE IRA: Savings Incentive Match Plan for Employees
  - Max 100 Employees. Employees can contribute. Roth.
- Solo 401(k): Solopreneur only (+ spouse)
  - Max $23K plus match <25% of profits. Total up to $69K.

Considering Investing in Other Early Ventures?

- Accredited investor: know requirements
- Crowdfunding: rules & limits
- Reg D and Reg A: placements and offerings
- Consider and research on Investor.gov:
    - Overall goals and plan
    - Diversification
    - Disclosures
    - Illiquidity

Investor.gov for MUCH more!

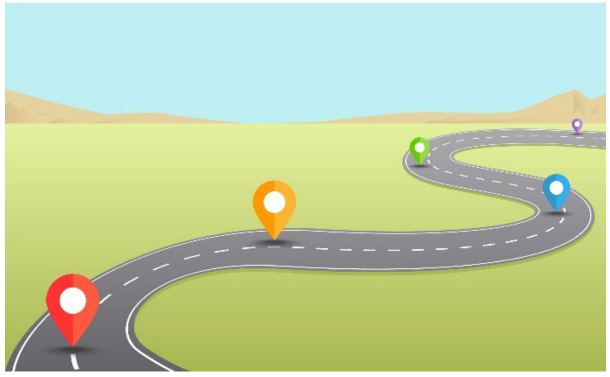
Before You Invest, Investor.gov



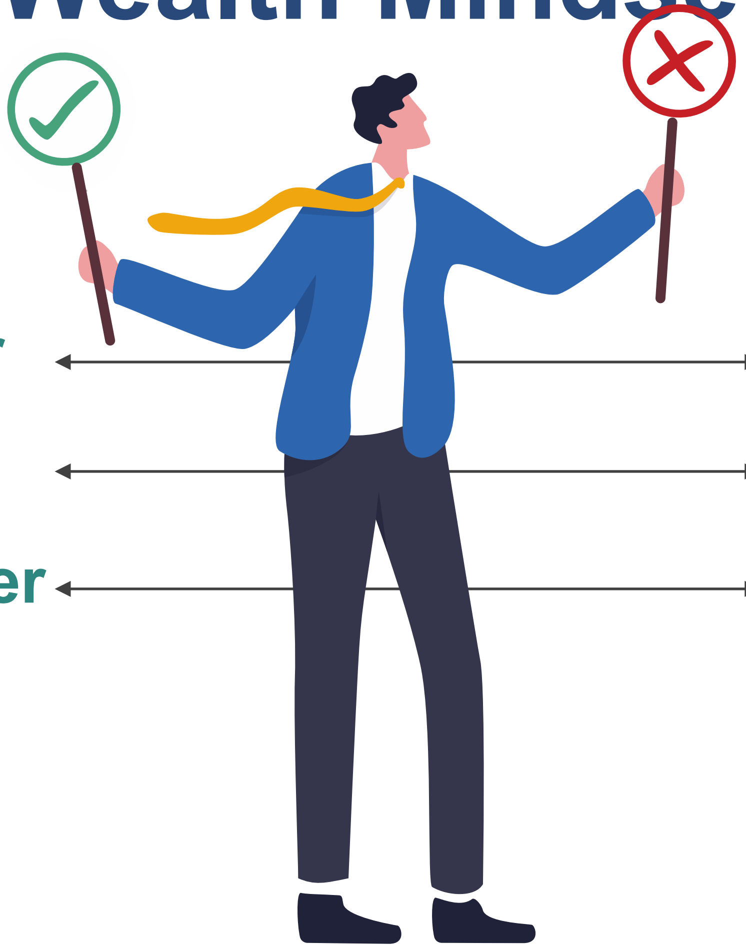
ONE MORE TIME:
A Roadmap to Building Wealth Through Saving and Investing

For many, the primary means of building wealth over a lifetime is through homeownership and long-term investing. When considering investing, there is a roadmap:

1) Pay Down High Interest Debt and Live Within Your Means
2) Get Banked and Have an Emergency Fund
3) Set Up Regular Contributions to an Investment and Keep Doing That Over a Long Period of Time



Wealth Mindset: Needs vs. Wants



Water	Venti pumpkin spice latte
Food	Door Dash delivery
Shelter	Luxury apartment with no roommates

Tougher Calls

High-end smart phone, streaming services, subscriptions, car?

Wealth Mindset:
Fund Your Future Goals

Step 1: Pay Down High Interest Debt

- Credit card companies charge interest on carryover balances that can easily exceed the return of your savings or investments
- Focus on paying off your balance and living within your means
- Should you stop investing in the meantime? Not necessarily. Keep going with investments that give you a tax break and matching contributions, like a 401(k).

Step 2: Start an Emergency Fund

- **Create a buffer** for life's unexpected expenses so you don't have to go into debt
- **Save automatically**, direct deposit some amount into savings each paycheck
- **Set a savings goal**, such as $25 per month, and slowly build it up until you have 3 to 6 months of living expenses saved
- **Take advantage of one-time opportunities**, such as tax refunds or gift money

Step 3: Invest For The Long Term

Powerful Formula:

Regular Investments + Time = Wealth Building

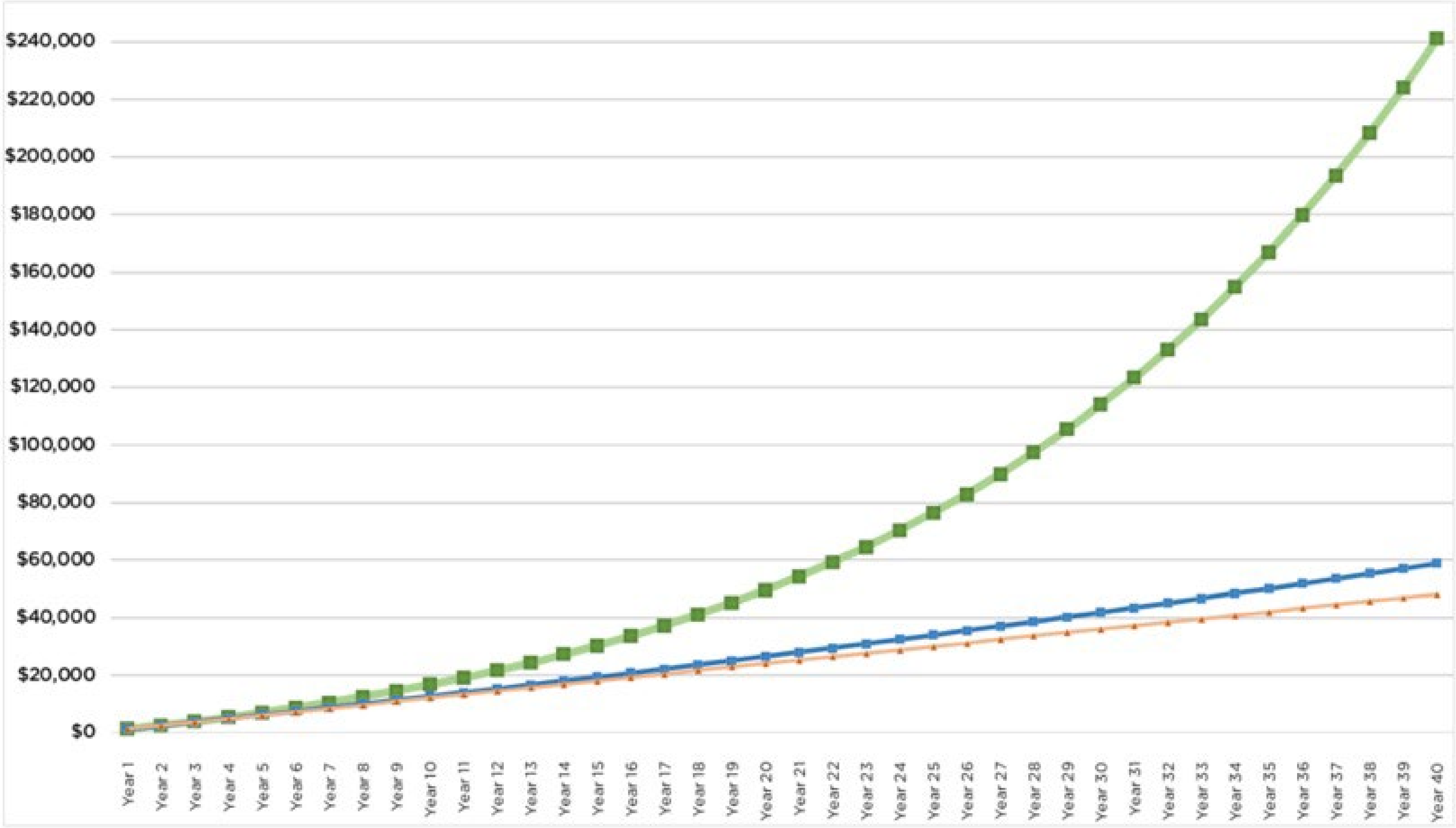
- Start investing as soon as you get your first job and keep going for your entire career
- Keep investing whether markets are up or down

Investments Grow Through Compounding

- **Stocks**: share price can increase; dividends can be reinvested
- **Bonds**: pay interest periodically; return principal at the end of bond period; can be sold on the secondary market
- **Funds**: underlying securities can increase in value; dividends, capital gains, or other earnings can be reinvested

Growth of $100 Per Month Over 40 Years

1% Interest vs. 7% Return

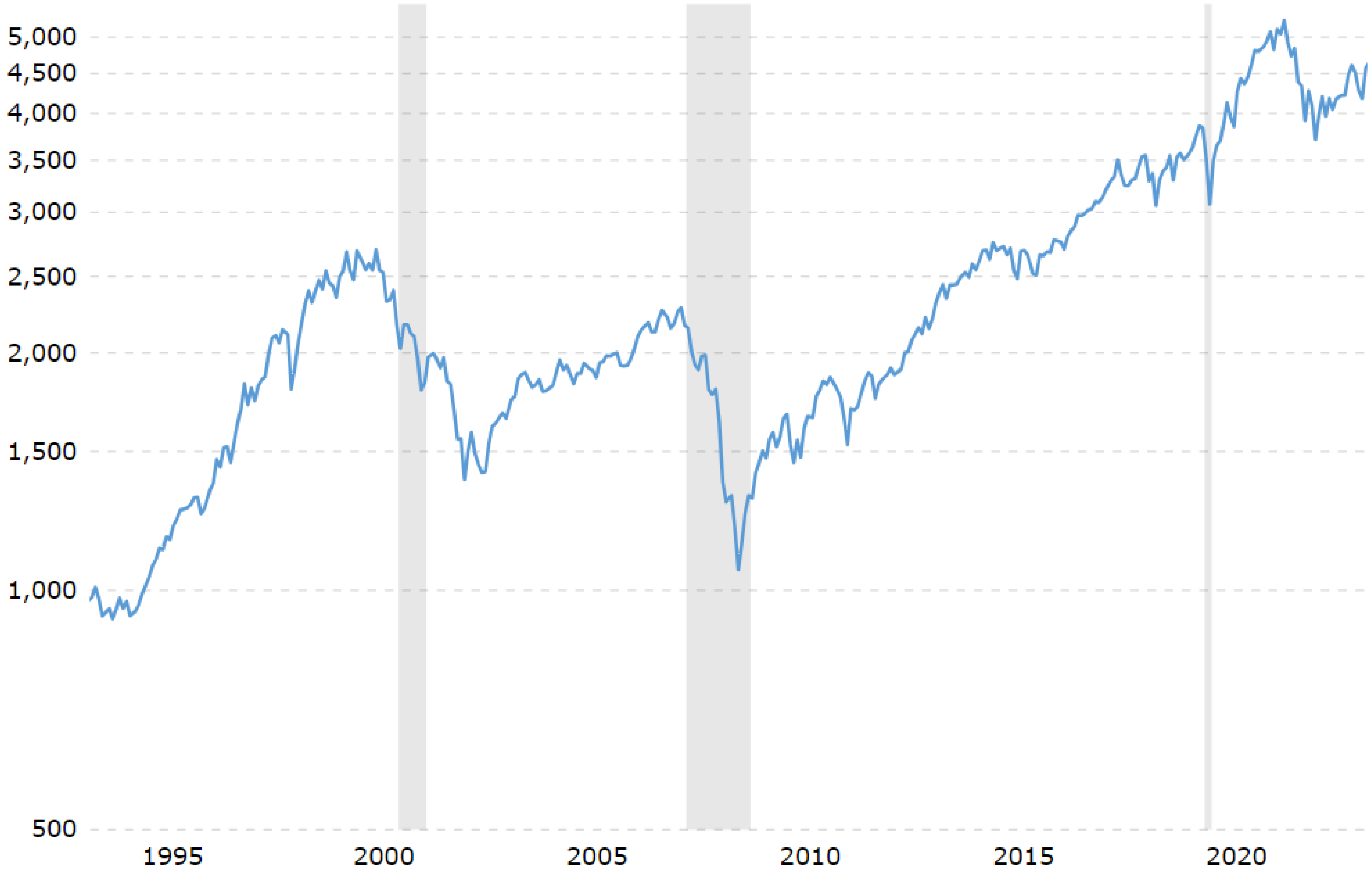


$241,059
Future Value (7.00%)

$58,812
Future Value (1.00%)

$48,000
Total Contributions

Stock Market Over 30 Years



What should you invest in?

- The SEC cannot recommend specific investments
- But there are certain attributes that make some investments good building blocks:
  - Employer matches
  - Tax breaks
  - Diversification
  - Low fees

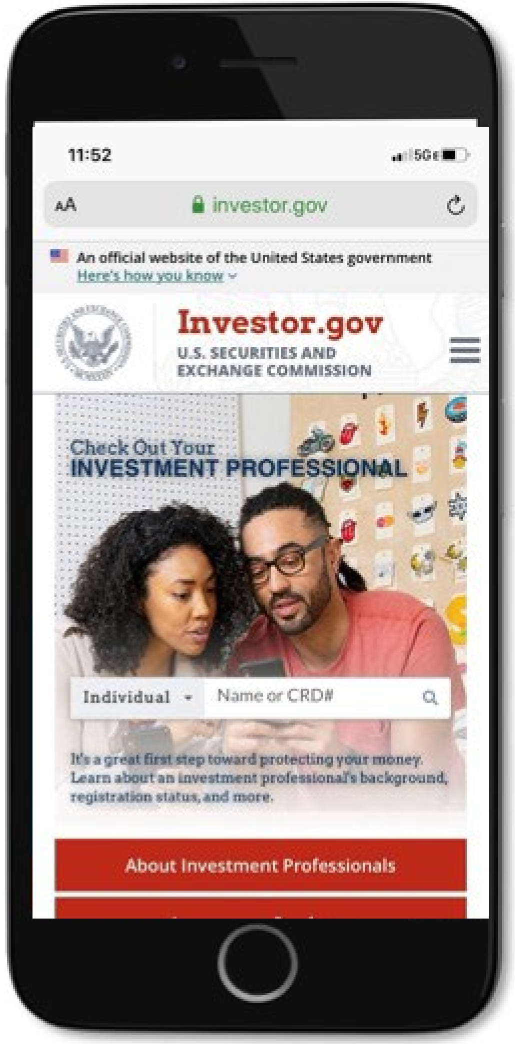
Retirement Accounts: Two Tax-Advantaged Ways to Contribute

Traditional	Roth
• Money goes in before taxes • Lowers your taxable income • Your money will be taxed when you withdraw it	• Money goes in after taxes • Your money will be tax-free when you withdraw it

Before You Invest, **Investor.gov**

Diversifying

Take Steps to Avoid Fraud



- If it sounds too good to be true, it is
- Be careful if you are asked to pay for an investment with gift cards, cryptocurrency, or wires overseas
- Don't be pressured to buy quickly
- Take time to research with unbiased resources
- Check any investment professional on Investor.gov

Contact the SEC

Submit Investor Complaints & Questions:

help.sec.gov

Report Suspected Securities Fraud:

www.sec.gov/tcr

Investor.gov

facebook.com/SECgov

@SECGov

SEC Office of the Advocate for Small Business Capital Formation

Mission: Champion pragmatic solutions so small businesses—from startups to smaller public companies—and their investors can build great companies together using our capital markets.

Special Focus: Identify and address unique capital raising challenges faced by minority-owned, women-owned, rural, and natural disaster-affected small businesses and their investors.

SEC Office of the Advocate for Small Business Capital Formation

How?

- Education and outreach
- Review rules and regulations
- Recommend policy changes to Congress and the Commission

FUNDING A SMALL BUSINESS

Self-fund Your Business

Personal finances and revenue from your business may be an option to fund your business. While you retain your ownership of the business, you also assume all risk. For many businesses, personal financing may not be a viable option.

Put yourself in the driver's seat!

Use our interactive navigator tool to explore the many regulatory pathways to raise capital.

Find the Navigator and more at our **Capital Raising Hub.**

Explore External Funding Options

Funding where the source does not receive an ownership interest in your company is often called non-dilutive capital. Examples include grants or loans.

Grants provide capital that need not be repaid and allow you to retain your ownership of the business. Consider grants sponsored by federal, state, and local governments, universities, or non-profits.

Loans may be available for small businesses from a bank or other institution. You will have to repay the principal over time along with any accrued interest. As with grants, these kinds of lenders do not typically take an ownership interest in your company.

LEARN MORE>>> Additional Resources

When investors take an ownership interest in your company, it dilutes or reduces the portion that you own, so this funding may be called dilutive capital.

Capital from investors often provides funding in exchange for an ownership interest in your company. Common early-stage investors include friends or family, angel investors, and venture capital funds. Often these investors seek to own a portion of—or equity in—your business or debt on negotiated terms.

DID YOU KNOW?

Fewer than 6% of entrepreneurs raise capital from investors.

Source: 2022 Annual Report, p. 25.

Two questions to ask yourself before raising capital from investors

Am I ready to raise capital from investors?

A number of factors go into being ready to raise capital from investors. Many investors will expect the company to have taken certain steps and prepared certain documents before seeking capital.

LEARN MORE>>> Before You Raise

Am I complying with the rules?

The U.S. Securities and Exchange Commission (SEC) regulates the offer and sale of ALL investment interests or securities. Generally, a business may not offer or sell securities unless the offering has been registered with the SEC or falls within an exemption from registration.

LEARN MORE>>> What is the SEC? What pathways are available?

ACCESSING CAPITAL FROM INVESTORS

The SEC regulates the offer and sale of all securities, including those offered and sold by private companies.

Under the federal securities laws, every offer and sale of securities, even if to just one person, must either be registered with the SEC or conducted under an exemption from registration.

This is true for companies of all sizes, private and public alike, and includes sales made to anyone, including friends, family, angel investors, and venture capital funds.

What is a Security?

Federal securities laws broadly define the term “security,” capturing many different forms of investment interests.

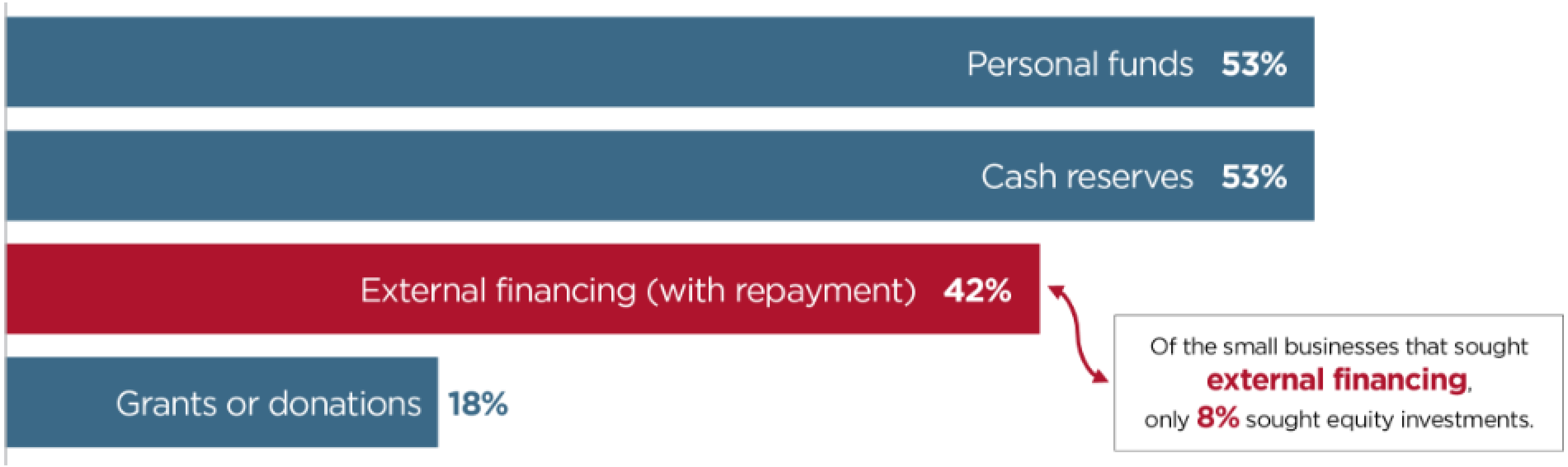
Some types of securities that startups often issue include:

- Stock
- Membership Interest
- Stock Option
- Restricted Stock
- Convertible Instruments
- Debt

Other early-stage capital raising options may not involve a security, such as federal grants, donations, and rewards or pre-purchases of a product.

External Sources of Capital

Where Small Businesses Turn for Capital



Source: 2023 Annual Report p. 7; Federal Reserve Banks, “Small Business Credit Survey, 2023 Report on Employer Firms” (Mar. 2023).

Ready to Raise CAPITAL?

Cap tables and financials

Update your financials for disclosure

C

Amount needed

Calculate your runway needs

A

Plan for proceeds

Describe how you'll use the money

P

Investor strategy

Focus on experts who bring value

I

Time and resources

Prepare to invest yourself in the process

T

Advisors

Line up your attorneys and accountants

A

Long term vision

Pitch with the investors' exit in mind

L

Securities Laws in a Nutshell

Under the federal securities laws, every offer or sale of securities must be registered with the SEC or conducted under an exemption from registration

Registered Public Offerings

- Initial public offerings (IPOs)
- Special Purpose Acquisition Companies
- Direct Listings
- Secondary registered offerings

OR

Exempt Offerings

- Section 4(a)(2)
- Rule 506(b) Private Placements
- Rule 506(c) General Solicitation Offerings
- Rule 504 Limited Offerings
- Regulation Crowdfunding Offerings
- Intrastate Offerings
- Regulation A Offerings

Pathways to Capital Raising

Rule 506(b) Private Placements allow companies to raise unlimited capital from investors with whom the company has a relationship and who meet certain wealth thresholds or have certain professional credentials. A company cannot use general solicitation in a 506(b) private placement.

Rule 506(c) General Solicitation Offerings allow companies to raise unlimited capital by broadly soliciting investors who meet certain wealth thresholds or have certain professional credentials.

Rule 504 Limited Offerings allow companies to raise up to $10 million in a 12-month period, in many cases from investors with whom the company has a relationship.

Pathways to Capital Raising

Regulation Crowdfunding Offerings allow eligible companies to raise up to $5 million in a 12-month period from investors online via a registered funding portal.

Intrastate Offerings allow companies to raise capital within a single state according to state law. Many states limit the offering to between $1 million to $5 million in a 12-month period.

Regulation A Offerings (sometimes called a "mini-IPO") allow eligible companies to raise up to $20 million in a 12-month period in a Tier 1 offering and up to $75 million in a 12-month period in a Tier 2 offering through a process similar to, but less extensive than, a registered offering.

Initial Public Offerings (IPOs) & Registered Offerings provide a pathway for companies to raise unlimited capital from the general public through a registered offering. After its IPO, the company will be a public company with ongoing public reporting requirements.

Choosing the Right Pathway

Make a plan.

AMOUNT NEEDED

What amount of money do you plan to raise?

CONNECTIONS

How do you plan to connect with potential investors?

LOCATION

Where are your potential investors located?

ACCREDITED STATUS

Are your investors all accredited?

What amount of money will be raised?

Different pathways allow you to raise different amounts of capital.

Up to $5M	Up to $10M	Up to $75M	Unlimited Amount
Intrastate Offering Reg Crowdfunding Rule 504 Rule 506(b) Rule 506(c) Regulation A	Rule 504 Rule 506(b) Rule 506(c) Regulation A	Rule 506(b) Rule 506(c) Regulation A	Rule 506(b) Rule 506(c) Registered Offerings and IPOs*

*There is no Federal offering limit on intrastate offerings but individual States and territories generally have offering limits between $1 and $5 million over a 12-month period. While registered offerings and IPOs do not require that an issuer raise a minimum amount, few issuers use registered offerings for proceeds under $75 million.

How to connect?

Small businesses need resources, knowledge, and connections to operate and grow their business; but many startups struggle to find each of these critical pieces.

Source: 2023 Annual Report p. 6.

General Solicitation: What's the deal?

A solicitation that conditions the market for an offering of securities is generally viewed as a **general solicitation** that is marketing the securities. Examples:

Newspaper and magazine advertisements

Unrestricted public websites

Television and radio broadcasts

Seminars (excluding demo days)

Why does this matter? Depending which regulatory pathway a company choses to raise capital, the company may be limited in how it can connect with potential investors. For example, the most commonly used offering exemption under the federal securities laws — Rule 506(b) of Regulation D — prohibits the use of general solicitation to market the securities.

How can I avoid general solicitation?

Conduct an offering that is limited to investors with whom the company (or its broker dealer or investment adviser) has a **pre-existing**, **substantive** relationship.

"Pre-existing"	"Substantive"
Formed *before* the start of the offering or Established through a broker-dealer or investment adviser *prior to* that investment professional's participation in the offering	Formed when the entity offering securities has sufficient information to evaluate and evaluates a potential investor's status as an accredited investor

What is the role of accredited investors?

Many of the offering exemptions under the federal securities laws limit participation to accredited investors or contain restrictions on participation by non-accredited investors.

Only Accredited Investors Allowed	Restrictions for Non-Accredited Investors	No Restrictions for Non-Accredited Investors
• Rule 506(c) General Solicitation Offerings	• Rule 506(b) Private Placements • Regulation A Offerings • Regulation Crowdfunding	• Rule 504 Limited Offerings • Intrastate Offerings • Public Offerings

How can individuals qualify as accredited?

Individuals may qualify as accredited investors based on wealth and income thresholds, as well as other measures of financial sophistication.

Financial Criteria:

- Net worth over $1 million, excluding primary residence (individually or with spouse or partner)
- Income over $200,000 (individually) or $300,000 (with spouse or partner) in each of the prior two years, and reasonably expects the same for the current year

Professional Criteria:

- Investment professionals in good standing holding the general securities representative license (Series 7), the investment adviser representative license (Series 65), or the private securities offerings representative license (Series 82)
- Directors, executive officers, or general partners (GP) of the company selling the securities (or of a GP of that company)
- Any “family client” of a “family office” that qualifies as an accredited investor
- For investments in a private fund, “knowledgeable employees” of the fund

How can entities qualify as accredited?

Entities owning investments in excess of $5 million

The following entities with assets in excess of $5 million: corporations, partnerships, LLCs, trusts, 501(c)(3) organizations, employee benefit plans, “family office” and any “family client” of that office

Entities where all equity owners are accredited investors

Investment advisers (SEC- or state-registered or exempt reporting advisers) and SEC-registered broker-dealers

A bank, savings and loan association, insurance company, registered investment company, business development company, or small business investment company or rural business investment company

What level of involvement do different types of investors in early-stage companies tend to have?

Friends and Family

Angel Investors

Venture Capital Funds

How do startups return capital to investors?

Common ways that companies "exit" or provide liquidity to investors.

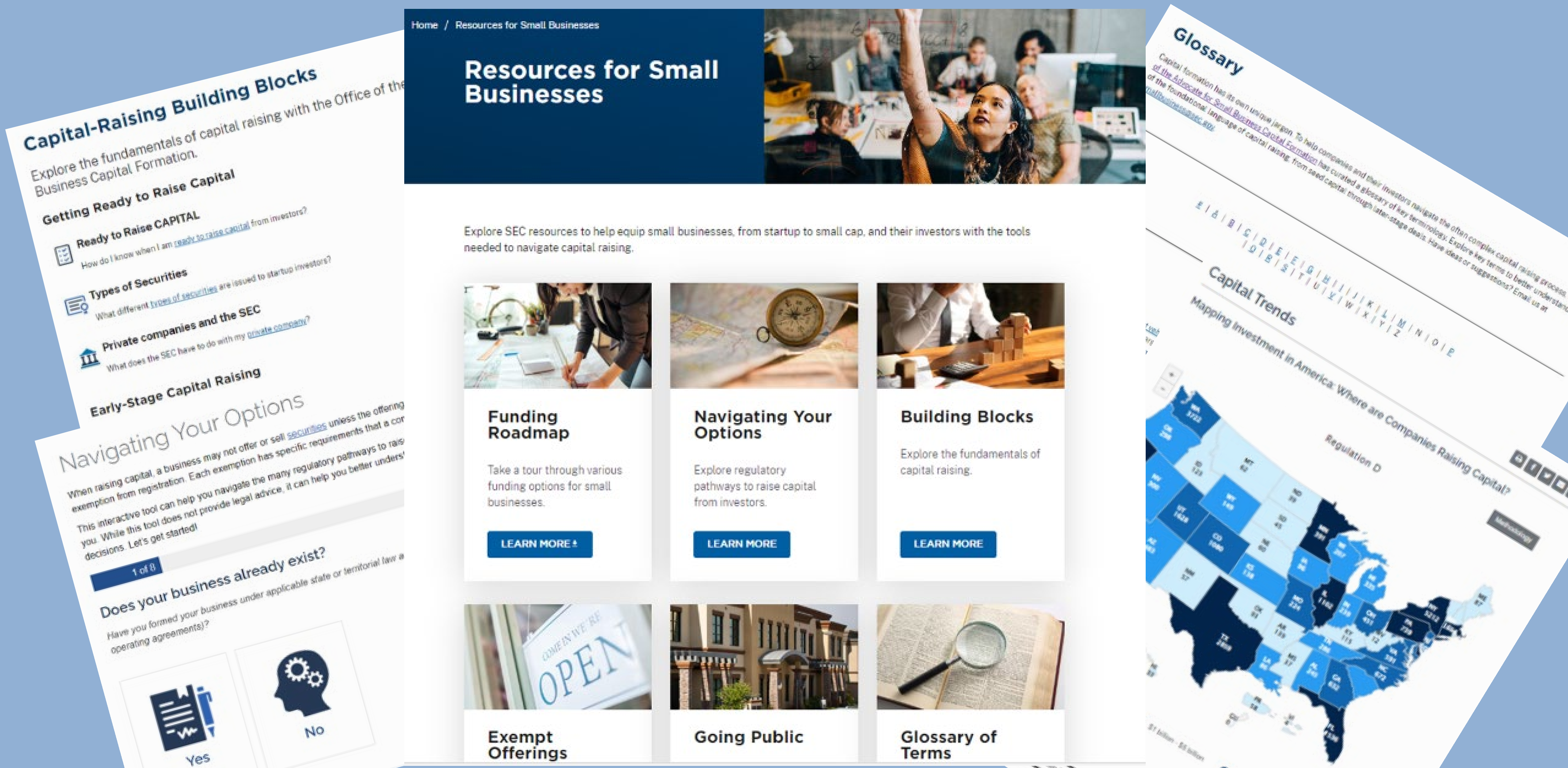
Public Offering

Merger

Sale or Acquisition

Liquidation of Assets

www.sec.gov/resources-small-businesses



YOUR SEC SMALL BUSINESS

Advocacy Office

Empowering small businesses and their investors

ENGAGE WITH US

smallbusiness@sec.gov

www.sec.gov/oasb

@SECGOV #SECSmallBiz