THE BALSA FOUNDATION

The Entrepreneur's Roadmap

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The BALSA Foundation is the philanthropic arm of The BALSA Group focused on helping individuals start businesses. We provide informational resources, peer-to-peer advising, and non-dilutive funding to people wanting to get their business dreams off the ground. We support individuals who may not have access to such expertise or financial capital and who are in the process of starting their first business. The BALSA Foundation is powered by St. Louis entrepreneurs, start-up advisors, community leaders, and young professionals with diverse backgrounds and experiences, who are passionate about empowering others to realize their business ideas.

Welcome to The Entrepreneur's Roadmap!

Believe it or not, by seeking support from The BALSA Foundation you have already demonstrated key aspects of a successful entrepreneur and business-owner: you are passionate about your idea and you are ready to invest 'sweat equity' into making it come to life. Congratulations, you are already on your way!

The Entrepreneur's Roadmap aims to serve as a guide – to help you understand the basic challenges that entrepreneurs tackle in order to realize their business ambitions. With the Roadmap as your reference, you will be able to act with confidence to build a successful business whether for-profit or non-profit. We hope the Roadmap will help you confirm a need for your idea, establish your business as a legal entity, develop intellectual property, learn how to communicate your idea to any audience, pursue independent financing, and begin proper accounting practices. Although we aim to provide information that you can apply to your business idea, the Roadmap is by no means comprehensive. The Roadmap is a starting point for further independent reading, provides additional quality resources, and should be built on by you – the entrepreneur.

It is important to note that the Roadmap should not be regarded as advertising, solicitation, or legal advice of any kind. You should not act or refrain from acting on the basis of any Roadmap content without seeking appropriate legal or professional advice.

Let's get started!

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Market Validation

"If you build it, they will come." Unfortunately, the business world does not always work this way; good business ideas often fail because the entrepreneur did not take the customer into consideration. In thinking about pursuing a business idea one must begin with the question, "if I build it, will they come?" This question can be answered through a market analysis, which aims to determine whether potential customers are willing to pay for your product or service and whether the market is big enough to support your business. Different types of businesses and business at various stages require different approaches and depths of market analysis depending on the specific product or service that an entrepreneur aims to provide. Here, we outline some basic components of a market analysis that are applicable to most businesses and use illustrative examples to explain the core concepts.

WHAT IS MARKET ANALYSIS?

Broadly speaking, a "market analysis" refers to any actions taken to evaluate a product's or service's potential for success and includes an understanding of the following areas:

1. Customers: In order to successfully sell a product or to provide a service to customers, it is essential to understand who the customer will be, what the customer needs are, and how the product or service you have in mind can potentially meet the needs of the customers. Furthermore, understanding how many potential customers there are, their total value (*market size*), and whether the number or preferences of customers is changing (*market trends*) will also help you decide whether or not to pursue your business idea.

2. Competitors: If you have a business idea, you will want to know whether other businesses already provide customers with a similar product or service. You also want to understand what makes each competing product or service different from your idea including the advantages and disadvantages of each. By understanding the current products or services currently available, you can play to your strengthens (*competitive advantage*) and shape your product or service in a way that is unique and stands out. In contrast, if you find there are many competitors, you may decide not to pursue your business idea.

3. Barriers to Entry: Depending on your business idea, you may be faced with barriers that make it difficult to sell your product or service for the first time (to *enter the market*). For example, government regulations may require you to purchase permits (e.g. liquor license), you may need to purchase expensive equipment (e.g. delivery vehicles), or potential customers may be difficult to reach. By identifying possible challenges your business will face, you will be able to build a strategy for overcoming them.

In your market analysis try to answer the following questions as best as you can:

1. What product or service am I going to provide that meets a specific customer need? Will customers buy my product or service?

2. What is my target population of customers? Who am I going to target this product or service to? What do they need and/or want?

3. How does this product or service meet the needs of my potential customers? What is the value that I am providing to my customers?

4. What is the size of the market (How many customers are there in the entire market)? How many customers do I expect to have early on? What is the value (in dollars) of the entire market?

5. Who else provides similar products or services? At what stage in development or commercialization are these products or services? How do their products or services compare to mine? How many customers do these competing business have?

6. What barriers exist that may impede my product or service from entering the market? How does that affect my business? How do I overcome these barriers?

A comprehensive market analysis could reveal an unmet need and help narrow down your target market or reshape your final product. It can also help you "fail fast," and prevent unnecessary time and energy spent creating an offering that would have ultimately not been successful.

Sue wants to open a pizzeria in the Midtown area to serve the medical community at Saint Louis University. Her business idea is to provide healthy, delicious fresh-made pizza at a reasonable price to her customers. Her target market is anyone who works or comes over to the hospitals in the area, but in particular the medical students, doctors, hospital staff members, and patients. In order to understand whether people will likely buy from her pizzeria, she'd like to perform a market analysis by going through the list of questions stated above. To start, she would like to validate her target population by determining the number of people in the community who would like to eat pizza from a pizzeria.

HOW DO I BETTER UNDERSTAND MY CUSTOMERS?

A large part of completing a market analysis involves understanding your potential customers. There are two approaches for collecting information about customers' needs: *primary research* and *secondary research*. Primary research means the information is collected first-hand through personal interviews, surveys, or questionnaires. Secondary research means the information is collected from a secondary source like published literature, white papers, press releases, market reports, and data vendors.

For primary market research, interviews and surveys are two ways to gather information about end-users' opinions. Generally, interviews collect data that capture major market sentiments and help you understand what aspects of a product or service might be important to the end-user/customer (e.g. price, convenience, accuracy, speed, value, *etc*.). Surveys, on the other hand, allow for the objective quantitation of specific characteristics of the market.

Secondary research is a quick and easy, though sometimes expensive, way of gathering helpful information that is already collected and published. Because anyone can search the internet for these reports, it can be a great place to start. With secondary data, one can understand market size, market growth rates and market trends, identify competitors (see below), establish benchmarks and identify target *segments*. However, the information gathered using common internet search engines is not always going to be specific, accurate, or up-to-date. To perform deeper searches, use local resources and talk to business insiders, like business journalists and writers.

To perform primary market research, Sue spends two weeks talking to passersby at The Grand Metrolink station. She also visits the hospital and medical school cafeterias, talking to diners there and politely asking them to fill out questionnaires. She finds out that a large proportion of her interviewees (over 70%) eat pizza at least once a week. By internet searches and talking to security personnel in the area, she finds that over 4000 people work at or visit the hospital on a daily basis. Sue is glad that there is a large potential customer base. If everyone that wanted to eat pizza buys from her pizzeria, she would have over 2800 customers every week!

Question: Is this an accurate sales projection? What could be missing from this picture?
Answer: Competition from other local restaurants and pizzerias. Not everyone wanting pizza will buy pizza from Sue's pizzeria.

HOW DO I EVALUATE COMPETITORS?

In the presence of competition, it is difficult for a business to achieve 100% market adoption, unless the product or service is so unique that virtually no effective competitor exists. Every business plan contains a thorough evaluation of the competitive landscape highlighting the importance of knowing your competitors. A thorough analysis of the competition typically consists of: (1) a competitive capabilities matrix including the majority of current and impending companies with products that serve a similar market; (2) a detailed description of the most threatening competitors; and (3) a Strength Weakness Opportunity Threat (SWOT) analysis. A SWOT analysis describes the most important internal (strengths and weaknesses) and external (opportunities and threats) characteristics of the envisioned business in regards to the market and competitive landscape.

In order to answer Question 5 in the list above and make her market analysis more useful, Sue decides to take a careful look at her potential competitors. She finds out that there are two hospital-operated cafeterias and three medical school-operated cafes on-site to serve the community, among which four out of five serve pizza. During her interviews with diners there, she counted that the majority of the patients (over 85%) get all their meals at the hospitals cafeterias. Many medical professionals (over 50%) frequently eat at cafeterias too, but many of them (over 70%) also venture out into the surrounding neighborhood for food at least three times a week. Nearby streets have various large and small eating establishments offering a few other food choices. These restaurants tend to have good business (over 100 customers per day). There are two pizzerias within a 20-minute walking distance to the hospital, and three more within a 10 minute drive. The overall market that Sue is trying to enter is highly competitive. After a careful competitor analysis, Sue tabulates her findings in the following table.

COMPETITOR	ACCESSIBILITY		PRICE	CUSTOMER SATISFACTION	ADVANTAGE	DISADVANTAGE
	DISTANCE	HOURS				
Cafeteria #1	On camps	7am-12am	$	☺	Cheap; easily accessible; grab-and-go.	Limited variety; pre-made
Cafeteria #2	On campus	8am-2pm	$	☺ ☺		
Pizzeria #1	5-minute walk	10am-6pm	$$	☺	Good location; affordable; made-to-order; dine-in/take-out	Traditional choices; not health conscious
Pizzeria #2	20-minute walk	11am-9pm	$$$	☺	Upscale gourmet pizza	Expensive; further away
Pizzeria #3	10-minute drive	9am-9pm	$	☺ ☺ ☺	Online order; take-out/delivery	Fast food; unhealthy
Other restaurants	Walking distance	---	$-$$$	☺ - ☺ ☺	Many choices	---

Table 1: Competitive capabilities matrix for Sue's Pizzeria

Understanding the competitive landscape will help form realistic expectation of the business and perhaps narrow down or re-focus the target market to a particular niche that presents an unmet need. This is because in every potential market, there is significant variability in a customer's willingness to pay for a product. In other words, given a customer's particular preferences and spending habits, they desire a product more or less. By stratifying the market into discrete segments, you can identify a group of customers that is most in need of your product, develop targeted sales and marketing strategies, and more accurately estimate the true value of the market.

Instead of trying to serve all members of the community in the hospital / medical school area, Sue decides that it is better to target students and staff members who are more likely to purchase food from restaurants instead of from on-campus cafeterias. By performing another round of interviews with her targeted consumers (students and staff members), she finds out that this group frequents the food trucks that come over to the campus Monday through Friday over lunch hours. In addition, she is told that Pizzeria #2 used to have a gourmet pizza food truck here until they opened a physical shop a 20-minutes walk away. Sue decides that it is a good idea to start with a pizza food truck that serves people in the community, especially students and staff members, over lunch hours on campus. After talking to the students who complain about a lack of variety, she decides on a few specific styles to start with, and will change the menu weekly based on customer feedback. Since she is targeting health- and environment-conscious customers, she is planning to *provide freshly baked pizzas made from scratch using all locally sourced ingredients. She performs a SWOT analysis on this reformulated business idea and presents her analysis in the table below.*

<u>Strengths</u>	<u>Weaknesses</u>
Flexible operation at great location Lower startup cost than renting a space Catering the needs of young professionals Stable consumer population; filling market niche	Small scale, limited hours Limited targeted market Increased sales tax for restaurants
<u>Opportunities</u> New construction on campus; potentially a larger customer base during and after construction.	<u>Threats</u> Large number of competitors Whole Foods Market under construction; potential indirect competitor that offers more food choices.

Table 2: SWOT analysis for Sue's Pizzeria

HOW DO I DETERMINE BARRIERS TO MARKET ENTRY?

Besides factors such as fierce competition and high start-up cost, other barriers to market entry could exist to make starting a business more difficult. A barrier to entry refers to any necessary step that adds an additional cost to reaching the customer. A barrier could be significant, for example meeting government regulations, or less severe, for example forming a partnership with companies that can sell your product (*distribution channel*). Some market barriers are very well defined; the presence of competitors already in the market (*first movers*) may make it difficult for a client to attract attention to their new product offering. Other barriers are more difficult to identify. For example, the need to attract customers to use a novel product or service may mean that customers are not inclined to use something that they are not familiar with, which also represents a barrier. This could be overcome by an effective marketing campaign and sales force. Overall, the barriers pose a cost to the company, and some of them need to be overcome with creative solutions.

Reaching the end of the list, Sue looks into barriers to market entry and is getting ready to overcome these barriers. For example, she familiarizes himself with government regulations regarding food and restaurant services and makes sure her business meets each requirement by purchasing food sales licenses and complying with safety and sanitation protocols for her food truck. She also contacts Saint Louis University regarding the permission to operate her food truck on campus. Finally, in order to attract customers, she plans to adopt a number of marketing strategies that will promote her pizza, such as distributing fliers, hosting free tasting sessions at school cafeteria, having promotional pricing for the first two weeks of business, and a points system to reward returning customers.

Six months later…

Sue's Pizzeria quickly becomes a favorite among students and staff members at Saint Louis University Medical School. Her business grows so fast that she is considering purchasing another food truck to operate near the undergraduate campus or UMSL, or renting a physical location to open a pizzeria shop. What is the best decision? Sue picks up the list of market analysis questions and starts a new round for the next big business decision.

SUMMARY

A thorough market analysis is critical for the success of a business. It should be performed before starting a business, before making a business decision to launch a new project, or any time a business owner wants to re-evaluate if a product or service is still meeting the needs or preferences of customers. Identifying target markets through primary and secondary market research, performing competitor analysis, and considering barriers to market entry are the core components of a market analysis. Market analysis should be an ongoing process as it informs the revenue potential in the near-term and long-term.

USEFUL RESOURCES

MO Source Link provides a list of questions that help assess the targeted market for a start-up business. The fillable PDF document is a useful worksheet for anyone who is interested in starting a business.

http://www.mosourcelink.com/startup/evaluate-your-idea

http://missouribusiness.net/wp-content/uploads/evaluating-business.pdf

Company Formation

Forming a company in the eyes of the State and the IRS is the first step to becoming a real legal entity. The company serves as an external entity to the founders. In this section, we provide an introduction to the various for-profit and non-profit business structures and briefly discuss the advantages and disadvantages of each. Most for-profit startups incorporate as a Limited Liability Company (LLC) because of the personal security this company type affords and the flexibility for changing to a different type in the future. Although each entrepreneur's case is unique, we believe a LLC is the right entity type for most entrepreneurs pursuing a for-profit business. Therefore, we focus the majority of this section on LLCs and provide step-by-step instructions for how to incorporate as an LLC in Missouri. For those entrepreneurs pursuing mission-driven social enterprises, we also explain the structures of L3C and non-profit entities, and provide step-by-step instruction for how to file as a non-profit corporation in Missouri.

LEGAL BUSINESS TYPES – FOR-PROFIT

A business entity exists to define ownership of assets and liabilities. As an individual, you have certain assets that pertain to you. For example, you may own your house (an asset) or have a mortgage (a liability). A business entity determines who your company's assets and liabilities belong to in the eyes of the State and IRS. Furthermore, a business entity defines the individual liabilities of the owners. Without the legal protection of a business formation, your creditors can come after you if your business goes under. They can lay claim to your home, cars, savings, and anything else of value. Lastly, the IRS taxes individuals and corporate entities differently.

The State of Missouri has four primary business structures. The primary differences between each business type are in how each defines the relationship between the owners' and company's assets and liabilities as well as how the business is taxed. The organization types are:

1. Sole Proprietor: A sole proprietorship is owned by a single individual or jointly owned by a married couple. The owner keeps all profits but takes on all the risk. The primary advantage of a sole proprietorship is the ease of forming the legal entity and the freedom to operate the business without the input of partners, directors, or shareholders. Furthermore, a sole proprietorship does not pay federal tax, instead the owner pays income tax on profits. The primary disadvantage of a sole proprietorship is the owner's personal responsibility for business obligations, debts, and other liabilities the business may incur.

2. Partnership: A partnership is the joining of one or more individuals, corporations or other entities under a partnership agreement. You and your partners keep all the profits and share the risk. Venture capital firms, law firms, and architecture firms typically operate as partnerships.

a. General Partnership: In a general Partnership, two or more people own the business and receive the profits. All partners are legally responsible for everything related to the company. Profits are taxed as personal income for the partners.

b. Limited Partnership: A limited partnership contains at least one general partner who is responsible for all debts, liabilities and other obligations. Other members are considered limited partners whose liabilities only extend to their investments in the company. Limited partners typically only invest in the company and do not take an active role in day-to-day operations.

c. Limited Liability Partnership: A limited liability partnership consists of limited partners that share company earnings. Because earnings are 'passed through' to members, LLPs avoid filing corporate tax. Each partner is liable individually instead of being liable together as the company; in other words, LLPs provide legal protection from the actions of other partners.

3. Corporation (Corp., Inc.) A corporation is a legal entity owned by shareholders. The shareholders appoint or elect a board of directors who appoint officers to operate the business. The entity protects the owners from personal liability. A corporation does not terminate with the death or bankruptcy of members. Most corporation types must hold corporate meetings and file annual reports.

    a. S-Corp – S-corporations, filed under IRS subchapter S, are especially designed for small businesses. S corporations are not usually required to pay corporate taxes; instead, S-corporations may elect to be taxed as an individual. S-corporations are restricted to no more than 100 owners (shareholders) and can only have one class of stock. Income or loss is passed on to the shareholders in proportion to their ownership. The corporation must apply to the IRS for "S Status" (request form 2553) within 75 days of the formation of the corporation.

    b. C-Corp – C-corporations, are subject to corporate taxes, which means profits are not "passed through" to the owners. C-corporations can more readily raise capital by issuing various types of stock. C-corporations are not required to form a board of directors or hold annual meetings if stated in their articles of incorporation.

4. Limited liability companies can be formed by any business or individual. An LLC offers liability protection similar to that of a corporation but is taxed more like a partnership. Unlike a corporation that pays corporate tax on earnings, LLC profits and losses are passed through to the owner's individual tax returns. A LLC, however, can elect to be taxed as a sole proprietor, partnership, S-corporation, or C-corporation. Note: Some venture capital firms only invest in C-corporations (see "Financing" in the Roadmap). An LLC, however, can convert to a C-corporation before raising such funding.

5. Low-profit Limited Liability Company (L3C): An L3C is a for-profit, social enterprise venture that has a stated goal of performing a socially beneficial purpose, not maximizing income. It is a hybrid structure that combines the legal and tax flexibility of a traditional LLC, the social benefits of a non-profit organization, and the branding and market positioning advantages of a social enterprise. The L3C is obligated to be mission-driven so there is a clear order of priorities for its fiduciaries. Unlike the traditional LLC, the L3C's articles of organization are required by law to mirror the federal tax standards for program-related investing. A program-related investment (PRI) is one way in which foundations can satisfy their obligation under the Tax Reform Act of 1969 to distribute at least 5% of their assets every year for charitable purposes. While foundations usually meet this requirement through grants, investments in L3Cs and charities that qualify as PRIs can also fulfill the requirement while allowing the foundations to receive a return.

While Sue was completing her market analysis, she considered how to structure her business. Although she is the only owner, she doesn't like that her personal assets, such as her house and car, are not protected from legal liability as in a Sole Proprietorship. Sue considers becoming a Partnership in case her brother wants to invest in Sue's pizzeria. She would be the General partner taking on all liability and therefore decides against structuring her company as a Partnership. She likes the personal liability protection that LLCs and Corporations afford her, but isn't planning to give employees stock in the company or raising money from venture capital. After discussing these options with her attorney, Sue decides to structure her business as a LLC.

	SOLE PROPRIETOR	GENERAL PARTNERSHIP	CORPORATION		LLC
			C CORP	S CORP	
Owners of limited liability for business debts and obligations			✔	✔	✔
Business duration can be perpetual			✔	✔	✔
Unlimited number of owners		✔	✔		✔
Owners need not be U.S. citizens or residents	✔	✔	✔		✔
May be owned by a business			✔		✔
May issue stock to attract investors			✔	✔	
Owners can report business profits and losses on their personal tax return	✔	✔		✔	✔
Owners can split profit and loss with the business			✔		

	SOLE PROPRIETOR	GENERAL PARTNERSHIP	CORPORATION		LLC
			C CORP	S CORP	
Not required to hold annual meeting or record meeting minutes	✔	✔			✔

Table 3: Liability and tax benefits by for-profit business type.

WHY SHOULD I INCORPORATE MY BUSINESS AS A LLC?

- Personal asset protection: A LLC allows all business owners to separate and protect their personal assets in case a lawsuit or claims are brought against the business.
- Pass-through taxation. LLCs can choose how they are taxed including whether business income or loss is "passed-through" to owners and reported on their personal income tax returns.
- Deductible expenses: LLCs may deduct normal business expenses, including salaries, before they allocate profits to owners.
- Flexible management structure: Unlike corporations, LLCs can have flexible organizational structure agreed upon by the company owners. For instance, LLCs can be managed by the owners (members) directly or by non-owners (managers). LLCs are not required to file annual reports.
- Brand protection: In most states, other businesses cannot file the exact LLC name in the same state.
- Perpetual existence: The legacy of the company can be preserved, independent of the owners.
- Application: Filing for a LLC is fairly straightforward.
- Ownership restrictions: LLCs have no restrictions on the number of owners.
- Business Conversion: LLCs can readily be converted to a C-Corp.

HOW DO I REGISTER A LLC IN MISSOURI?

1. Choose a Company Name:
   The name must end with the words “Limited Company,” “Limited Liability Company,” or the abbreviations “LLC,” “L.L.C.,” “LC,” or “LLC.” Search for the chosen name using the Missouri Secretary of State’s online business entity database. The name of your LLC must be different than any business entity in Missouri. While you prepare to establish your company, you may reserve an unused name for 60 days by filling the form “Application for Reservation of Name” and paying $30.00. Send the form to the Secretary of State as indicated on the form.

2. Designate a Registered Agent:
   A registered agent is responsible for receiving all legal documents and state notices for your company. The registered agent can either be an individual or a business with a physical street address within Missouri. If the

agent is an individual, he/she must be a state resident and if the agent is a business, the business must be authorized for transaction in Missouri. The registered agent is identified on the "Articles of Organization."

3. File Articles of Organization:
   In Missouri, a LLC is created by filing the "Articles of Organization for a Limited Liability Company" with the Secretary of State. This two-page form includes basic information about your LLC such as the name, the purpose, the name and address of registered agent, the management structure, the organizer(s) information, and whether the LLC's duration will be perpetual or for a specific period. The form can be completed online, sent in the mail, or completed in person.

4. File Fictitious Name (if applicable):
   Missouri law requires that any LLC who regularly transacts business under a name other than the LLC's "true name" as stated in their operating agreement must register that business name under "Fictitious Name Registration." This one page form can be mailed as indicated on the form.

5. Request an Employee Identification Number:
   The IRS issues every company a unique Employee Identification Number (EIN) for the purposes of administering taxes. You will need an EIN to open a bank account, pay taxes, and to pay wages to employees. An EIN can easily be requested from the IRS online by answering a few basic questions.

6. Request a Sales Tax number:
   Any business making retail sales (e.g. clothing) must obtain a Missouri Retail Sales License from the Missouri Department of Revenue. To register for sales tax, a bond based on projected monthly gross sales must be posted with the "Missouri Tax Registration Application." Those businesses operating solely as a wholesaler or manufacturer should provide a "Sales and Use Tax Exemption Certificate" to their suppliers showing that the sale is exempt from sales tax.

7. Obtain a St. Louis Business License:
   Most new businesses operating in the City of St. Louis will need to obtain a business license. Generally, any type of business that involves commercial activities, commodities, manufacturing, wholesale or retail goods, and services is required to obtain a business license. The required business license depends on type of your business. A complete overview of the types of required business licenses and instructions for obtaining them can be found at the City of St. Louis License Collector.

8. Prepare an Operating Agreement:
   Although in Missouri an operating agreement is not required to register your LLC, it is highly advisable. Please see the "Operating Agreement" section of the Roadmap. Your operating agreement will not need to be filed with the Secretary of State.

WHAT SHOULD I KNOW BEFORE MEETING WITH AN ATTORNEY?

Below are several basic questions one should consider before filing for a LLC. If you do not feel competent in any of the below areas, or anything discussed throughout this section, please seek legal console before proceeding:

1. **Ownership**: What is the ownership percentage of each founder?

2. **Capital Contributions:** How much capital (i.e. money) has each founder/owner contributed to the company. Should capital contribution be considered when determining company percent ownership

3. **Principal place of business**: What is the address of the business where most operations will take place?

4. **Registered agent:** Who should be the registered agent? Because the LLC filing is public, a lawyer can be the registered agent if the owners which to remain anonymous.

Please read the Roadmap section, "Operating Agreements" for additional important considerations.

LEGAL BUSINESS TYPES – NON-PROFIT

In Missouri, non-profit organizations are considered a "public/mutual benefit corporation." A non-profit is an organization that uses all funds and revenues to further achieve its mission, rather than distributing to the organization's founders, directors, or owners. Non-profit entities also differ from for-profit businesses in that the organization's assets cannot be owned by individuals. Non-profits may pursue tax-exempt status through the IRS. Non-profit directors are protected from person liability in most cases, potential exemptions include criminal and clearly negligent behavior (e.g., director directly injures someone, personally guarantees of a bank loan or business debt on which the corporation defaults, or co-mingles nonprofit and personal funds, etc.). Directors and Officers insurance is available to cover directors in the face of most of these exemptions. Further details on the requirements for non-profits can be found below.

HOW DO I REGISTER A NON-PROFIT IN MISSOURI?

1. Convene a Board of Directors:
   You are required to have a Board of Directors with at least 3 people (more are allowed, but an odd number is preferred for voting purposes). Directors control the organization and ensure it is committed to its charitable mission. A director needs to serve in the roles of President, Secretary, and Treasurer. One director can serve in two officer roles simultaneously.

2. File Articles of Incorporation with the Secretary of State:
   In Missouri, a non-profit is created by filing the "Articles of Organization of Non-profit Corporations" with the Secretary of State for $25. This two-page form includes basic information about your Non-profit such as the name, the purpose, the name and address of registered agent, whether the organization has members, the name and address of incorporator(s), and what will happen to any assets if the organization is dissolved. The form can be online, sent in the mail, or completed in person.

3. Request an Employee Identification Number:
   The IRS issues every company a unique Employee Identification Number (EIN) for the purposes of administering taxes. You will need an EIN to open a bank account, pay taxes, and to pay wages to employees. An EIN can easily be requested from the IRS online by answering a few basic questions.

4. Adopt Bylaws and Policies:

The IRS issues every company a unique Employee Identification Number (EIN) for the purposes of administering taxes. You will need an EIN to open a bank account, pay taxes, and to pay wages to employees. An EIN can easily be requested from the IRS online by answering a few basic questions.

Some sample bylaws and policy documents can be found at the following links:

- Sample Bylaws: http://bolderadvocacy.org/wp-content/uploads/2012/05/Sample_501c3_Bylaws.pdf
- Sample Bylaw: https://www.harborcompliance.com/information/nonprofit-bylaws
- Policies: http://www.nolo.com/legal-encyclopedia/what-governance-policies-should-your-nonprofit-have.html

5. Apply for Tax-exempt Status from the Internal Revenue Services:
   While state law governs non-profit status (via articles of incorporation), federal law regulates tax-exempt status. Typically, non-profits file for 501c3 tax-exempt status. The 501c3 tax-exempt status has financial benefits both in freeing the organization from operational tax burdens and in providing a tax break to those who make donations to the organization. Other tax-exempt classifications (e.g. 501c6) do not provide as many benefits.

   A full list of the steps to take prior to applying for tax-exempt status can be found at http://www.irs.gov/Charities-&-Non-Profits/Before-Applying-for-Tax-Exempt-Status.

   To apply for tax-exempt status an organization must fill out a Form-1023 application and submit a $800 filing fee. Organizations with less than $50,000 in income, $250,000 in assets, and that are not a church are eligible for a "streamlined" application process through Form 1023-EZ. These forms can be found at the following link. http://www.irs.gov/uac/Form-1023,-Application-for-Recognition-of-Exemption-Under-Section-501%28c%29%283%29-of-the-Internal-Revenue-Code

USEFUL RESOURCES

An overwhelming amount of quality information can be found at the University of Missouri Extension Business Development Program:

- Business Formation
- Business Taxation

The Missouri Lawyer Referral Service operated attorneys will confer with you for up to 30 minutes for a fee of $30. The telephone number for St. Louis City/County is (314) 621-6681

Legal Services of Eastern Missouri (LESM) provides free civil legal assistance to low-income and elderly clients in Eastern Missouri. Their services include a Community Economic Development Program, which helps brand new and established for and non-profit businesses. Details can be found by visiting the LESM website.

Volunteer Lawyers and Accountants for the Arts (VLAA) provide free legal service to low-income artists in Missouri and Southwestern Illinois. Details can be found by visiting the VLAA website.

Operating Agreements

As a limited liability company (LLC) in the state of Missouri, you will need a document called the Operating Agreement. This legal document sets the rules for operating your LLC by outlining your business and management structure and serves as a legally binding agreement for all of your business partners who agree and sign it. This section will provide you the basis for approaching a lawyer to draft an operating agreement specific for your new business. Operating Agreements are private contracts that are not publicly visible. Creating a term sheet detailing the major decisions and conditions to be included in the operating agreement is critical to working effectively with a lawyer.

WHAT IS AN OPERATING AGREEMENT?

The operating agreement is a legal document that defines a LLC's financial and management functions, and is crucial to ensure personal liability protection and conflict resolution that might otherwise lead to various issues affecting the stability and future of the company. Operating agreements are the governing documents for a LLC. Similar governing documents for a Corporation (as opposed to a LLC) are bylaws and shareholders' agreement. In an operating agreement, the co-owners (referred to as "Members") of the business establish rules regarding ownership, profit sharing, dissolution, and decision-making processes. Once the operating agreement is signed, it is an official contract that legally binds all of the Members of the LLC.

WHY DO I NEED AN OPERATING AGREEMENT?

The purpose of the operating agreement is to formalize the working relationship between all Members involved and to provide liability protection for the owners. Many states do not legally require a LLC to create an operating agreement, but Missouri does pursuant to Missouri Statute Section 347.081.1 stating "The member or members of a limited liability company shall adopt an operating agreement…". Regardless, it is always best practice no matter the state of formation for a LLC to have an operating agreement for the following reasons:

- Defining the Limited Liability Status: An operating agreement helps ensure that the courts will respect your limited personal liability to the business, which is particularly important in a single member LLC that can look like a sole proprietorship or general partnership, neither of which provide personal liability protection. Note that in order to maintain the liability protection, you must abide by corporate governance rules.

- Establishing the Financial and Management Structure of the Business: Well-defined rules regarding profit sharing, how losses will be allocated, decision-making and management of the business prevent misunderstanding between Members. Even if the rules are established through verbal agreement, it is important to have them in writing for future reference in case of conflict.

- **Overriding Default State Law**: Most states have default laws in place to handle basic aspects of LLCs. It is in your best interest to have an operating agreement that overrides these default laws as they often may not be in your favor or reflect the intent of the Members.

- **Fundraising**: Potential investors (e.g. sophisticated angel investors and venture capital firms) will not invest in companies that do not have clearly organized and delineated operating agreements. A well-drafted operating agreement is critical for successfully raising funds. Courting investors may require incorporating your business so investors can purchase shares of ownership.

- **Defining a Member's Equity Interest**: Taking the opportunity early on to define who owns what, and then what will happen if founders leave the startup, can avoid future disasters as well as make a venture more attractive to future investors.

- **Adding New Members**: The operating agreement will set out basic terms for bringing in new Members to the company.

- **Determining the Outcome of an Exit**: At some point in time, the LLC will dissolve, be sold, or you may desire to sell your interest. The operating agreement will include the waterfall of payments upon dissolution, rights upon an offer to sell the business, and rights of first refusal/buy out provisions upon the sale of a Member's interest.

- **Confidentiality, Non-Competition, and Non-Solicitation**: The operating agreement will set out the confidentiality rules for the Members to protect the company from competition through disclosure of trade secrets, copyrights, intellectual property, and other valuable resources of the company (including its employees).

Because Sue would like to incorporate as a LLC, she is beginning to draft her company's operating agreement. Since she is currently the only owner, Sue gives herself 100% ownership of Sue's Pizzeria, which she can always update in the future. In the operating agreement, she includes instructions on how equity ownership can be exchanged for investment as well as how profits and/or losses are shared with employees. The operating agreement also establishes the management structure making Sue the only manager. When Sue hires a chef, she or he will be considered a co-manager while additional employees will fall under the direction of Sue and the chef. Sue puts these ideas together before reaching out to an attorney for help.

WHO SHOULD BE INCLUDED AN OPERATING AGREEMENT?

The operating agreement includes all members/owners of the LLC, which are founders and equity stakeholders (i.e. individuals who are financially supporting your business).

WHAT DO I NEED TO KNOW BEFORE MEETING WITH AN ATTORNEY?

Because operating agreements are unique to every business, an experienced lawyer should draft your operating agreement. However, all operating agreements share certain characteristics and language. As attorney time can be expensive, there are ways to maximize the efficiency of your meeting. Founders should create a term sheet that answers the following questions (which parallel the issues before meeting with their attorney for the first time:

1. **Ownership:** Have a clear idea of who should have ownership, of what percent of the company each owner receives, of what each owner has provided to date in exchange for ownership (i.e. money, sweat equity), and of what you expect each owner's percentages to be if they perform as expected over the next year.

2. **Profits and losses:** How should profits and losses be allocated? Should all profits be distributed among owners or should a certain percentage be reinvested into the company? Should profits and losses be distributed equally to all Members or in some other way (e.g., proportional to ownership)?

3. **Owner Removal**: If someone leaves the company (e.g., death, disability, retirement, or termination of employment), what happens? Should they lose some equity? Is there a non-compete restriction, which may prevent the individual from working for a competitor?

4. **Management Structure**: Determine how the company will be managed. For example, who will be the President/CEO? Who will manage finances? Who will manage operations? Can the managers make executive decisions without getting the majority vote from all Members?

5. **Member Expectations**: What will be expected of each Member? Who will be doing what and for how long? Is everyone required to work 40 hours a week? What are terms that allow Members to avoid responsibilities? What should be the goals of the business? Can an owner 'buy out' another owner's share of the company? Should an owner have the right to acquire additional ownership before other, also know as 'rights to first refusal?'

6. **Additional Funding**: How will equity be allocated to additional owners? Will all owners' equity reduce the same amount or will only specific owners' equity be reduced?

7. **Liquidation**: What will happen to company assets if the company is dissolved?

Operating agreements should be comprehensive and carefully drafted to anticipate various issues ahead of time, and to plan out strategies for handling these situations effectively. The entrepreneurs have to keep in mind that one size does not fit all and it is always wise to spend time and effort in drafting this document based on the structure, composition and complexity of your company. Although the framework for an operating agreement is highly specific to each company, some core elements are often shared. Note, that a business operating agreement can be updated, edited, or expanded with agreement of all stakeholders (unless lesser consent is provided for in the current operating agreement). Having a well-planned term sheet (i.e. bullet point list outlining major terms and conditions of the business) that has been approved by all the stakeholders before meeting a lawyer will minimize the legal costs associated, and will also minimize editing or updating in the future.

USEFUL RESOURCES

As you establish your company you will need mentors and an advisory board that will provide ongoing business advice and will champion your company. The operating agreement can indicate the level of involvement for each board member and any compensation they will receive (e.g., equity). However, don't rush to form the board or make it too large; it is better to add people slowly based on the needs of the company and the challenges it will face. Furthermore, be selective about board membership to shape an advisory board that has expertise, experience, diversity, and a strong network.

More detailed reading can be found here:

- How to compensate directors of startup companies
- How to build an advisory board

Within St. Louis, a number of legal firms and entrepreneurial services specialize in helping small businesses negotiate the legal process:

- SCORE St. Louis
- Innovate St. Louis
- UMSL Technology Transfer and Economic Development (TTED)
- Legal Services of Eastern Missouri

Intellectual Property

As you develop your idea and your company begins to take shape, your ideas and inspiration accumulate value. As your idea, company brand, and company image increase in value, you want to be sure they are protected. In this section, we provide the information needed to develop, and then implement an intellectual property strategy which best protects your invention, product, or brand. We do not recommend you go about it without legal consult, but a lawyer's time is expensive and we hope this section will help you understand how to protect your idea and minimize the amount of time you need to spend for legal consult.

WHAT IS INTELLECTUAL PROPERTY?

The term "intellectual property" or "IP" generally refers to "creations of the mind," which are considered property and are protected by the law. Given that IP is treated much like physical property, it can be owned, licensed, assigned, bought or sold, and generally falls into four distinct categories.

1. Patents: Protection of novel (new) and non-obvious inventions for a limited period of time. Did I invent a new product or process that is central to my idea?

2. Trademark and Service Mark: Designations used to indicate the source of a product or service, respectively. Will my business have a name (e.g., McDonald's, Great Clips), slogan (e.g., "Just Do It"), or logo, which a consumer will closely associate with my product or service?

3. Copyright: Protects a variety of different original and creative works and is immediately created when the work is "fixed" in a "tangible medium." Have I created an original product of my own creativity (e.g., art, song, instruction manual)?

4. Trade Secret: Commercially valuable information that is offered protection through confidentiality / non-disclosure agreements (e.g., Coca-cola formula, KFC Fried Chicken Recipe) as opposed to being protected by the law. A trade secret is NOT protected if the information can be reverse engineered by someone else. Did I come up with a product or process that may not be eligible for patent protection, but is unlikely to be easily reverse-engineered by a competitor (e.g., Google search algorithms)?

Take time to consider which one or more of these categories of intellectual property apply to your business.

WHY SHOULD I BE CONCERNED ABOUT INTELLECTUAL PROPERTY?

Intellectual property can prevent others from hurting the reputation of a business, can prevent the sale of unlawful fakes or knockoffs, and can protect an invention from being copied by competitors.

A potential investor or acquirer will evaluate a company's intellectual property to assess how well the business is protected. If a competitor could easily copy or duplicate an invention because the intellectual property is not protected, an investor will most likely not invest in the company. Even worse, if a competitor has a pending patent application or granted patent that covers a company's invention, they can bring legal action against that company for possible patent infringement and can prevent them from making or using that invention.

Similar protection is needed for company trademarks or service marks. As a company product and/or service becomes recognized, value is added to the company's brand, which can be realized as the company logo, name, or slogan. A trademark, or a service mark in the case of companies that provide a service, protects a company's brand and ensures no other companies can use any aspect of the brand.

PATENTS

WHAT IS A PATENT?

A patent is a right given by law to inventors to exclusively make use of, and exploit, their inventions for a limited period of time. By granting the inventor a temporary monopoly in exchange for a full description of how to perform the invention, patents play a key role in developing industry around the world. U.S. law confers "the right to exclude others from making, using, offering for sale or selling the invention throughout the United States or importing the invention into the United States." A patent, however, does not grant an individual the right to make, use, offer for sale, sell, or import the invention if doing so would violate any law (e.g., a recreational drug may be patentable, but may be illegal to make, sell, possess, or use).

WHAT ARE THE PARTS OF A PATENT?

Cover Page: The cover page presents information that is primarily bibliographic in nature. None of this information, including the abstract, has any legal import for interpreting the patent. The data provides notice of historical facts and identifying elements, such as the application filing date and the serial number.

Specification: The specification, also called the disclosure, describes the invention and its uses. It is used to interpret the scope of the invention (the claims). The specification should include the following information:

(a) title of the invention;

(b) cross-references to related applications;

(c) statement regarding federally sponsored research, if applicable;

(d) background of the invention;

(e) summary of the invention;

(f) description of any drawings;

(g) detailed description of the invention;

(h) claims.

The **Claims** are the most important part of a patent application as they define the invention and the scope of protection. The claims should contain:

- A preamble that explains the class of the invention, and optionally its primary properties, purpose, or field. For example, "An apparatus…;" "A therapeutic method for treating cancer…;" "A composition having an affinity for protein X…." This preamble may also reference another claim.
- A "transitional" phrase that characterizes the elements that follow. The phrases "comprising," "containing," and "including" are most often used and often preferable, as it means "having at least the following elements" and are therefore open (inclusive) and do not exclude additional limitations. The phrases "consisting of" and "consisting essentially of" are more limiting, as they mean "having all and only" or "virtually only" and are therefore closed (exclusive). Any good lawyer will apply more inclusive language than exclusive language in the patent claims.
- A set of "limitations" that together describe the invention: "an X, a Y, and a Z connected to the X and the Y." The elements should be described as though they interact or cooperate to achieve the desired result.

WHAT ARE EXAMPLES OF PATENTABLE SUBJECT MATTER?

Patents are granted on a "new and useful [1] process, [2] machine, [3] manufacture, or [4] composition of matter or on any new and useful improvement thereof:"

1. Process: "mode of treatment of certain materials to produce a given result; an act, or a series of acts, performed upon the subject-matter to be transformed and reduced to a different state or thing." Example: The steps involved in an organic chemistry reaction to create a commonly used chemical, which is cheaper and faster that traditional methods

2. Machine: instrument that consists of parts or elements that are organized to cooperate, when set in motion, to produce a definite, predetermined result (apparatus, mechanism, device, engine). Example: A novel and more efficient car engine

3. Manufacture: "the production of articles for use from raw or prepared materials giving those materials new forms, qualities, properties or combinations, whether by hand labor or machinery; also, anything made for use from raw or prepared materials." Example: Paper suitable for writing upon; Water resistant leather

4. Composition of Matter: "all compositions of one or more substances and all composite articles, whether they be the results of chemical union or of mechanical mixture, or whether they be gases, fluids, powders, or solids." Example: A newly synthesized chemical that does not occur naturally and has never before been produced.

WHAT ARE EXAMPLES OF NON-PATENTABLE SUBJECT MATTER?

Some ideas are not eligible for patent protection because they are already in the public domain and not actually invented. Other non-patentable subject matter include:

1. Laws of Nature: Laws concerning thermodynamics and conservation of energy, level of a biomarker
2. Abstract Ideas/Mental Processes: A mathematical method for converting binary coded decimals into binary numerals
3. Naturally Occurring Items: A newly discovered plant in the rainforest, a newly discovered genetic mutation
4. Organisms: A bacteria species w/ an altered genetic structure

WHAT ARE THE REQUIREMENTS FOR PATENTABILITY?

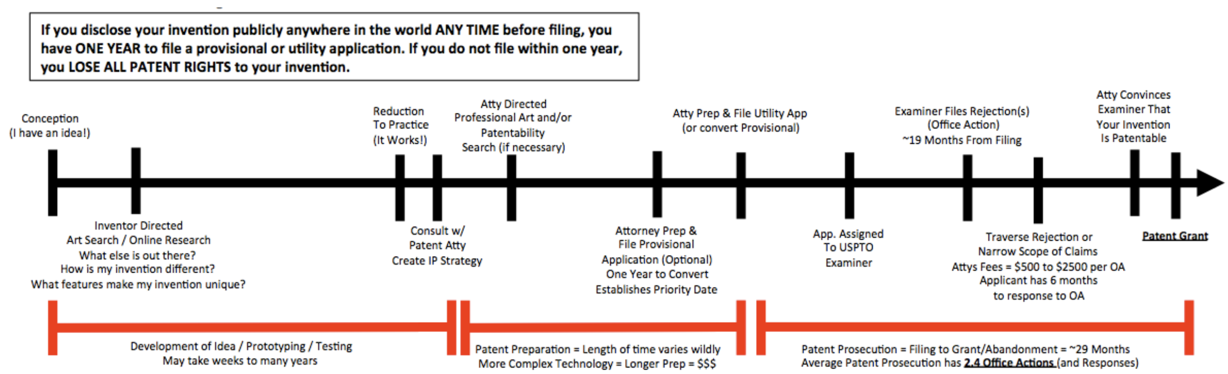
Besides being a process, machine, manufacture, or composition of matter, an idea or invention also must be 1.) novel, 2.) non-obvious, and 3.) demonstrate utility.

1. Novelty: In the U.S. prior to March 2013, ownership of an idea or invention was awarded to the person that could prove she or he was the first to invent the idea. This law was referred to as "First-to-Invent." After March 2013, U.S. patent law changed to where ownership of an idea or invention was awarded to the person that first filed the patent, also known as "First-to-File." Often, attorneys will ask whether any "prior art" exists concerning your idea or invention. Prior art refers to any public disclosure (e.g., a printed publication, presentation) made before the effective date of filing the patent application.
2. Non-Obviousness: If the creation of an invention requires very little creative effort and, therefore, is very obvious to a "Person Having Ordinary Skill In The Art," a patent may not be granted. In other words, if an individual with average intellect and average creativity walked into a room with all of the most relevant prior art and necessary materials available, would she or he be able to come up with the invention? If the invention is non-obvious, the patent must be written in a way that enables the individual to practice the invention as claimed without undue experimentation.
3. Utility: Although seemingly obvious, a patent must be useful. Generally, to assess an invention's usefulness one asks, "Does the invention do anything?" or "Does the invention work?" The requirement of an idea to be useful also implies that the invention can perform the intended purpose it was designed to do.

WHAT ARE THE STEPS TO FILING A PATENT?

The steps that lead up to and include filing a patent with the United States Patent and Trademark Office (USPTO) can be complicated and confusing (see Timeline below). Fortunately, your attorney should have a good understanding of the entire process. You, however, should be aware of two application steps: 1.) filing a provisional patent and 2.) filing a non-provisional patent. Once the patent has been drafted, it can be filed as a provisional application. The provisional patent is not reviewed by the Patent Office and serves as a placeholder or stamp that declares that you have filed a patent. The day you filed the provisional patent is the day the patent is filed (see "First-to-File" above). You will have one year from the date of filing to convert the provisional patent into a non-provisional patent, which will be reviewed by the USPTO, or a

PCT application (described in more detail below). A provisional patent costs much less than a non-provisional patent but gives you time to decide whether to invest in the full patent or not. A non-provisional application will only be prosecuted by the United States Patent Office, thus the granted claims will only be enforceable in the United States. In contrast, a Patent Cooperation Treaty (PCT) application, gives you the opportunity to pursue foreign patent rights.



Patent Expiration = 20 years after being granted

Post-Grant Maintenance Fees

Years Post Grant	USPTO Fee	Small Entity	Micro Entity
3.5 Years	$1600	$800	$400
7.5 Years	$3600	$1800	$900
11.5 Years	$7400	$3700	$1850

Figure 1: Patent Preparation, Prosecution, and Maintenance Fee Timeline

WHAT IS THE COST OF FILING A PATENT?

The cost of researching existing patents to determine infringement, drafting the patent, filing the provisional and non-provisional patent, and other tasks vary depending on the time needed and the type of invention. Table 4 provides a few hypothetical examples of inventions and the fees associated with filing patents to protect the invention. Discounts for small entities, however, exist. If the filer qualifies for Small Entity Status, the USPTO offers a half-price discount on provisional and non-provisional patent filing as well as post-grant maintenance fees (see Figure 1). For example, instead of paying $260 to file a provisional patent application, a Small Entity would pay $130 and a filer that qualifies as a Micro-Entity would pay $65. As an entrepreneur, you will likely be considered a micro-entity and will be able to take advantage of the lower USPTO fees. It should be noted that attorney's fees typically far outweigh the costs associated with filing fees at the USPTO.

	EXAMPLE 1: COMPUTER IMPLEMENTED INTERNET FUNCTIONALITY	EXAMPLE 2: CONSUMER ELECTRONICS PRODUCT	EXAMPLE 3: MECHANICAL TOLL
Patent search including detailed patentability assessment	$2,400	$2,000	$1,600
Provisional patent application prepared and filed	$5,000	$2,500	$2,000
Filing fee to the USPTO for provisional patent application	$130	$130	$130
Non-provisional patent application based off provisional filing	$10,000	$7,500	$6,500
Filing free to the USPTO for non-provisional patent application	$1,200	$800	$800
Professional illustrations for non-provisional patent application	$500	$400	$400
Total:	$19,230	$13330	$11,430

Table 4: Three examples of the estimated costs of preparing and filing a complete patent.

WHAT IS A PCT APPLICATION?

The Patent Cooperation Treaty (PCT) is an international patent law treaty that provides a unified procedure for filing patent applications to protect inventions in each of its contracting countries. Although the PCT system does not grant an international patent, the system does:

- simplify the process of filing international patent applications;
- delay the expenses associated with applying for patent protection in other countries;
- allow the inventor more time to assess the commercial viability of her or his invention.

Under the PCT, an inventor can file a single international patent application in one language with one patent office in order to simultaneously seek protection for an invention in up to 117 countries throughout the world. The PCT application is not prosecuted. Instead, following filing of a PCT application, the filer has 30/31 months (depending on the country) to nationalize the application. Upon nationalization, you can decide what countries you would like to file your patent application in to be prosecuted. Notably, the United States is the only country that will allow you to add additional data at this point. International patent protection can be costly; for example, protection in the five major markets for a pharmaceutical may cost as much as $50,000.

TRADEMARKS AND SERVICE MARKS

A trademark or service mark can be a name, logo, slogan/tagline, character, symbol, color, sound, or even scent that is used by individuals, businesses, and organizations to identify and distinguish their product or service, respectively, by indicating the source of their product or service.

Figure 2. Examples of famous trademarks.

Consumers use trademarks to identify, compare, and distinguish products/services. A trademark may offer an assurance of the quality or consistency of a good or service. For example, if you buy an Apple computer, you can expect the computer to be the same standard of quality that Apple is known for. In many cases, a trademark can be the most valuable tangible asset of a business.

HOW DO I ACQUIRE RIGHTS TO A TRADEMARK?

Common law trademark rights are acquired upon using the trademark in connection with a good or service. Therefore, if you put your company's unique logo on your website in connection with the products or services you are offering, you acquire common law trademark rights.

To strengthen your protection and increase the scope, you may register your trademark as "In-Use" or as "Intent-To-Use." By registering, you obtain the exclusive rights to use the mark nationwide, prevent registration of confusingly similar trademarks, increase the chance of getting trademark protection in foreign countries, and gain the ability to use "®" to designate that your trademark is registered.

Instructions on how to electronically register your trademark with the USPTO can be found on the USPTO website.

Types of trademarks, from weakest to strongest protection, are described below:

- Generic (e.g. E-MAIL, ASPIRIN, ZIPPER, CARS): Device which is or has become synonymous with a general class of the product of service. For example, you would be unable to achieve trademark protection if you started a car company called "Cars" because "Cars" refers generically to the product offered. A trademark can become generic when the mark loses secondary meaning, such as “ASPIRIN” and “ZIPPER” which were both originally trademarks designed to designate source but became terms used to describe the category of goods.

- Descriptive (e.g. BANK OF AMERICA, SPORTS ILLUSTRATED): The trademark describes the good or service and must establish secondary meaning by becoming distinctive to function as a trademark. For example, consumers must see the Bank of America trademark and connect it with Bank of America banking services rather than an American bank before trademark protection is secured.
- Suggestive (e.g. JAGUAR, MICROSOFT, COPPERTONE): Marks that suggest the quality or characteristics of the good or service. For example, MICROSOFT suggests software for microprocessors.
- Arbitrary (e.g. APPLE): Trademark has a common meaning and that meaning has no relation or inherent connection to the goods or services being sold.
- Fanciful (e.g EXXON, BUICK, KODAK): Devices that have been invented for the sole purpose of acting as a trademark and has no other meaning aside from connecting a good or service to the trademark. Considered the strongest type of trademark protection.

COPYRIGHT

Copyright law protects original creative works by rewarding authors and artists with a set of exclusive rights. Federal copyright law grants authors and artists the exclusive right to make and sell copies of their works, the right to create derivative works, and the right to perform or display their works publicly. These exclusive rights are subject to a time limit and generally expire 70 years after the author's death.

Copyrightable works include: literary, musical, dramatic, pictorial/graphic/sculptural works; pantomimes or choreographs; audiovisual works, sound recordings, compilations, and architectural works.

If you create or hire someone to create an original logo or character for your company, copyright protection allows you to stop others from using that same logo or character in addition to any trademark protection that may be afforded.

More recently, copyright protection has been discussed in the context of computer code, exactly as written, as an alternative to patent protection. Presently, the consensus is that computer code, specifically as it is written, is afforded copyright protection as a literary work.

TRADE SECRET

In some limited cases, trade secret protection may be appropriate for your invention or idea. A trade secret can be a formula, practice, process, design, or instrument that is not generally known and not reasonably attainable and that gives a business a competitive advantage. Trade secret protection is indefinite (i.e. forever), but if another party reverse engineers the protected invention entirely on their own, the trade secret holder has no way of preventing the other party from using the invention.

Generally, ideas/inventions that are afforded trade secret protection have three characteristics:

1. The information is not generally known to the public;

2. The information confers some sort of economic benefit to its holder where the benefit derives specifically from the value of the information not being known;

3. The information must be subject to reasonable efforts to maintain its secrecy. Typically, this includes requiring those privy to the information to sign confidentiality or non-disclosure agreements.

Determine whether trade secret protection is appropriate for your invention or idea should be made by an attorney. Often, a complex invention (e.g. Google's search algorithms) or recipe (e.g. Coca-Cola, KFC Fried Chicken), which may not be patentable or easily reverse engineered, is appropriate for trade secret protection.

WHAT CAN I DO BEFORE I TALK TO AN ATTORNEY?

1. Educate yourself. Beyond this Roadmap, try to learn as much as possible about when IP is needed and when it is not. Early on, you may not need to worry about IP protection. Most people and businesses are not out to steal your ideas. In fact, it often takes a lot of work to copy or steal your idea, brand, or product. File for IP protection when you and your attorney decide the time is right. However, it is important to note that any public disclosure prior to filing for patent protection (i.e., a provisional application) can count as prior art towards your invention. Thus, it is important to discuss with an attorney your invention prior to a public disclosure. A public disclosure can be a publication, a presentation, a conference abstract, a grant, or anything that provides enough information about your invention that allows others with ordinary skill in the art to make or use your invention. Even a discussion with a company can count as a public disclosure if a Confidential Disclosure Agreement (CDA) is not in place. As you speak to others about your idea, avoid disclosing critical and unique aspects of your idea or invention.

2. Search for filed patents or trademarks and for similar products or ideas. For both patents and trademarks, be aware of products or businesses that may be similar to your idea or business. Collect any information you find on websites, blogs, patents, or any other public resource and present them to your attorney. The information can help your attorney decide how to write the claims of a patent or whether to file for a trademark. Providing your attorney with the most comprehensive view of the closest prior art will allow her or him to draft your application such that you will more likely be able to overcome the prior art during prosecution.

    a. Patents: A "patentability search", also referred to as a "prior art search", is a comprehensive search for anything in the public domain (i.e. publications, patent applications and awarded patents) that are similar or may have some overlap with your idea or invention. The best way to begin a patentability search is to query key words that describe the idea or invention using Google Patents. Through your Competitive Analysis (see the "Market Validation" section), you should have a good idea of competitors and potentially similar products or businesses.

    b. Trademarks: If your trademark is a word or phrase, search the internet for the word or phrase and similar combinations. In addition, search the USPTO Trademark Electronic Search System (TESS) for any registrations of the mark or phrase.

3. Plan your strategy. Before you speak to an attorney, be able to clearly and succinctly describe in writing your IP, whether an idea, invention, logo, etc. A clear outline of your invention and its novelty and non-obviousness over

the prior art will enable a more efficient conversation with your attorney thereby potentially reducing costs associated with drafting, and down the road, prosecution of your patent application. Importantly, if you are not the sole inventor, be sure you confirm with your co-inventors what exactly needs to be protected.

4. Identify inventors. If you feel anyone else has contributed to your idea or inventions be sure to communicate to them your intention of filing a patent or trademark. Before speaking to an attorney, be certain of the people that should be included on the patent.

Most firms that specialize in patent filing employ patent scientists. Although not attorneys, these individuals usually have technical specializations and can help you perform prior art searches or draft claims for a patent at a fraction of the cost of an attorney. When you do decide to reach out to an attorney, carefully evaluate several attorneys on their specialty, background, price, reputation, etc. You should consider your attorney as a business partner that you will turn to not only as you establish your business but also as you grow your business.

Sue has thought about what kinds of IP she may have with her new pizza restaurant. After discussing with her attorney who specializes in food IP, she decides that her restaurant's name, "Sue's Pizzeria," should be trademarked. She also feels that the recipes for her gourmet pizzas should be protected as a trade secret. Sue searches the TESS for any current trademarks that contain the word "Sue," "Sue's," or "Pizzeria." She finds plenty of trademarks with the word "Pizzeria" but none with "Sue's." Sue's attorney, therefore, files a trademark for "Sue's Pizzeria" and drafts a confidentially agreement to protect Sue's 'secret sauce.' By signing the confidentiality agreement, all of Sue's employees promise not to share her 'secret sauce' with anyone and will be legally restricted from sharing the recipe for the duration specified in the agreement. Because Sue is not inventing a new method or process for making pizza nor inventing a new machine for making pizza, she does not feel that she needs to file any patents.

USEFUL RESOURCES

The SBTDC at Warrensburg offers assistance with patents and trademarks; for more information on their services call (660) 543-4402 or visit www.ucmo.edu/sbtdc.

Pitching a Value Proposition

In this Roadmap section, we cover topics that should be addressed before reaching out into the community to grow your network, solicit funding, and attract mentors and team members to your venture. We discuss how to determine your capital needs, explain the concept of a value proposition, and provide instruction for developing a pitch that will grab the listener's attention and capture people's interest. These topics will better prepare you to raise funds for your venture and share your passion with the community at-large.

HOW MUCH CAPITAL DO I NEED TO GET STARTED?

Successfully raising funds will require a plan for establishing and running your business. The plan should start with determining your business' annual expenses – after all, if you decide to ask for a loan from a bank, you will need to know how much money to request. Estimating your expenses is extremely important, but does not need to be overly complicated. Start by thinking about the absolute minimum expenses that you must incur to be able to sell your product or provide your services, remembering to keep expenses as low as possible. There are two kinds of costs to consider when trying to estimate how much money you will need to start your business: initial one-time costs and recurring costs. Below are a few examples of each type of annual cost, which may or may not be applicable to your business.

One-time costs:

- Incorporation fees
- Intellectual Property and other legal fees
- Permit and/or license fees
- Down-payment on office space or rent for a commercial lease
- Initial inventory
- Signage
- IT/computer equipment
- R&D equipment

Recurring costs:

- Salaries
- Rent
- Legal fees
- Taxes
- Utilities
- Inventory
- Insurance

- Supplies
- Reagents
- Advertising
- Website hosting
- Loan payments

When estimating how much capital (i.e., money) your business will need, request quotes and retrieve actual prices so that your estimates are as accurate as possible. These estimates will lay the foundation of your financial strategy and plan. After determining your first year's costs, you can begin to assess how you will raise the money to cover these expenses (see the "Financing" section of the Roadmap).

WHAT IS A VALUE PROPOSITION?

Before seeking external funding from a bank, business plan competition, venture capital firm, or other organization, a business owner should have an intimate understanding of the value the business is creating for its customers or clients. A short phrase or sentence that describes the value created for a consumer, customer, or client is known as a value proposition. The value proposition should describe how your product or service is unique and provides value in a way that no other company can provide. A value proposition could describe a business as a whole or could be specific to a single product. Furthermore, a company could have multiple value propositions, one for each of its products.

Whether you know it or not, you have already been working diligently toward shaping your value proposition. Your first efforts toward assessing your business idea was in understanding your potential market, potential competitors, and potential barriers to market entry (covered in the Market Validation section). As you gain a deeper understanding of your customers and competitors, you should refine how you articulate your value into fewer and fewer words. When you are unable to refine it anymore, you've found your value proposition: a short, concise sentence or quip that explains why a consumer will pay for your product or service.

As an early stage entrepreneur, a solid value proposition is important for convincing others to take interest in your business. You'll know that you've got a great business idea if others take note of your value proposition.

Value Proposition Examples:

- Internet Marketing Company: "Our products help companies leverage the power of the internet to triple their market reach while cutting marketing costs in half as compared to traditional methods."

- Medical Diagnostic Company: "Our test will provide physicians test results 10x faster than current methods, leading to better patient outcomes, and decreased healthcare costs."

- Restaurant: "Using only high quality ingredients, our expertly trained chefs offer bistro-quality sandwiches at delivery chain prices."

WHAT IS AN ELEVATOR PITCH?

An entrepreneur must always be prepared and willing to share her or his idea. Whether at a networking event, a scheduled meeting with a potential funding source, or a random encounter with someone who might prove a valuable connection, there are countless opportunities to tell others of your business idea. To quickly pique the interest of anyone and spur in-depth conversation, you should develop an effective business pitch, also known as an elevator pitch. A business "pitch" is a short (1-3 minute), provocative story about your business idea that can be shared in the time it takes to ride an elevator. How you develop your pitch is important: your pitch should be concise, intriguing, and informative.

The critical components of a business pitch are (in no particular order):

- *Who you are.* Start with yourself as founder, but also mention other current team members if appropriate. Mention training, attributes, or experiences that makes you and your founders the best-suited team to accomplish your business' specific goals.
- *The Problem.* What is the need or pain-point you are filling? Be sure to include overall addressable market size (see the "Market Validation" section of the Roadmap) to frame the size of your business opportunity. Include first-hand accounts of customers or clients that have a need.
- *Your solution/value proposition.* What is the value you provide to customers or clients? What is your innovation? What do you have that others don't to solve the major problem you have laid out?
- *Where you currently stand.* Accomplishments to-date, if any. Mention money raised, IP created, market validation conducted, company formation and incorporation, top-notch mentors or advisors, etc.
- *What you currently need.* Mention current funding requirements and how this will get you closer to your goal. Also, request mentorship or specific professional support (e.g., legal, marketing, accounting).

Several aspects to avoid include (in no particular order):

- Starting or ending flat, always start with a hook and end with a solid upbeat tagline;
- Focusing on the solution, without highlighting the true need it is solving;
- Not establishing your credibility;
- Presenting in a monotone voice.

A pitch will differ depending on the audience, so feel free to improvise as appropriate. For example, when talking to an investor, you may spend more time explaining your financing needs and how you plan to use funds. When pitching to a potential employee you may add a sentence or two about the tremendous opportunity to contribute to the next big thing. If pitching to family members, you might focus more on why you are poised to have an impact.

WHERE CAN I SHARPEN MY PITCH AND NETWORK IN ST. LOUIS?

- *Skandalaris IdeaBounce* – Regular event offered through Wash U for anyone in the St. Louis community to pitch their early-stage idea and connect with the resources they need to move forward.
- *StartUp Connection* – Conference for St. Louis entrepreneurs.

- *StartLouis* – A grassroots community of bootstrappers, solopreneurs, and startup enthusiasts in St. Louis, whose mission is to bring entrepreneurs together for learning and collaboration. StartLouis hosts a monthly meetup event featuring a presentation and Q&A session with an accomplished St. Louis entrepreneur, plus a short talk from one of our own members – all free of charge.
- *1 Million Cups* – Each week, two local entrepreneurs present their ideas to a diverse audience of mentors, advisors, and entrepreneurs. Presenters prepare a 6 minute educational presentation and engage in 20 minutes of feedback and questioning after they present. Networking occurs before and after the pitches.
- *Missouri Venture Forum* – MVF serves those leading the growth of earlier stage businesses through regular events focused on peer networking, topical education, and access to capital resources.

Write your pitch, practice, and revise. Find listeners, get their feedback, revise and practice again.

Sue is almost ready to go raise money for Sue's Pizzeria. She has evaluated the market, competitors, and barriers. She has formed a LLC, drafted an operating agreement, and filed the appropriate IP. Sue now estimates her first year's expenses. She's created a list of expenses and found quotes from leasing agencies and determined prices of used items from retail stores, Ebay, and Craigslist. She determines that she will pay roughly $12,000 in her first year for rent and utilities, about $20,000 in salary for herself, $1,000 for a used oven, $2,000 for fixing up the restaurant and purchasing chairs and tables, and about $5,000 in food ingredients. She, therefore, anticipates her first year's expenses to be $40,000. As her vision becomes clearer and she gets a deeper understanding of the needs of her customers, Sue starts to articulate her value proposition: she wants to provide unique, original pizza choices using only local ingredients. After getting feedback from colleagues and friends, Sue settles on her value proposition: "healthy, wholesome, gourmet pizzas made only from locally grown produce." Sue is now practicing her business pitch targeting customers and potential investors.

Financing

Now that your company is formed, your idea is validated, and your business pitch refined, it is time to raise money (*capital*) to support your operations. New companies can be financed in different ways. Depending on your business goals and corporate structure (i.e. LLC, Corporation, Non-profit, etc.), you may favor one funding source over another. In this section, we cover the different ways of financing a new company, the different groups of people or institutions that provide funding, and specific funding opportunities in St. Louis available to those completing the Roadmap with details aimed at helping you develop a strategy for raising your first funding round.

WHAT ARE THE DIFFERENT WAYS OF FINANCING A NEW COMPANY?

New and growing companies support their businesses through grants, debt, convertible notes, equity deals, crowdfunding, or “impact investment.”

Grants – An ideal way to finance your company is by federal, state, or private grants because, like the BALSA Foundation Entry Fund, grants are awarded without requiring any equity/ownership, in your company, or that the grantor is paid back overtime. Most private and government grant funding sources award money with few strings attached other than requiring mandatory monthly, quarterly, or annual progress reports. Some grants are focused on certain industries, types of companies, or missions while others are more general. Grants can take the form of a one-time award, milestone-based distributions, or as free professional services, also known as in-kind donations.

Debt – A loan, the primary means of acquiring debt, is a lump sum of money that must be repaid with additional interest over a future period or term. The interest rate charged is an important feature of debt financing and usually reflects the level of risk the lender is willing to take. Most lenders will require the following when assessing and giving a loan:

- Business Plan: Most lenders will utilize a business plan to assess the business opportunity. Depending on the bank, they typically require a 3-5 page document that covers a description of the business, a marketing plan, financial projections, and funding requirements. Avoid “fluff,” like technical jargon and grammatical errors.
- Personal Financials: Most will require 3 years of personal tax returns and a personal financial statement
- Adequate Down Payment: 10-20% of loan for most lending institutions
- Collateral: If a business requesting a loan does not have collateral (e.g., land, buildings, equipment), the lender may ask for personal assets to be pledged as collateral.

Other debt opportunities do exist for those who cannot meet the above requirements expected from traditional lending providers. For instance, “microloans,” are specifically focused on those not able to qualify for traditional loans. Microloans are offered locally from groups such as Justine Peteresen.

Convertible Notes – One way of soliciting funds for your company is to accept money today with the possibility of providing equity/ownership in your company at some future, mutually agreed upon date. Through a convertible note, an investor can lend money to a company and rather than getting their money back with interest as is the case with a traditional loan, the investor has the option of receiving equity in the company. For convertible notes, the company provides a ‘note’ in exchange for the initial investment money, which a few years later, when the company receives more significant funding, ‘converts’ into company ownership. Typically, in a convertible note, the investor is guaranteed a lower price per ownership unit because of her or his willingness to invest in the early days of the company when the risk of failure is the highest. The advantage to the company is that they do not have to put a value on the company or determine how much ownership to give away per dollar invested until a future timepoint when calculating such a value should be less speculative.

Equity Deals – A straight equity deal occurs when an investor exchanges money for an ownership interest in the company. The investor essentially purchases a portion of the company. The amount of equity the investor receives will depend upon the agreed upon monetary value of the company. For example, if a startup company is worth $10,000 and the founders issue 10,000 units of ownership (e.g., stock in a corporation or membership units in an LLC) each unit would be worth $1. Some equity deals involve different types of units that provide differing rights.

Crowdfunding – Raising money from the general public is referred to as crowdfunding. Crowdfunding campaigns typically leverage the internet to access millions of people and can take four forms: reward-based which offer tangible incentives for funding, typically a promise of receiving the product made by the company; donation-based which ask individuals to part with their money for nothing in return; lending-based which is paid back over time; and equity-based which can offer equity for financing (the legal aspects of this last mechanism are not finalized, however).

Impact Investments – While still in its infancy, new investment vehicles are being tested by both traditional investors and private foundations that blur the line between financial, social, and environmental returns. Mechanisms such as Program Related Investments (PRIs; e.g., low or no-interest loans or investments in high-risk opportunities by charitable foundations), Mission Related Investments (MRIs; investments that fit a charity’s mission but have more standard, “market-rate” terms), forgivable grants, and direct equity investments by philanthropic sources of capital are becoming more commonplace and provide opportunities for those entrepreneurs that are focused on both social impact and financial sustainability.

WHICH FUNDING TYPES APPLY TO ME?

No matter whether a company (commercial, non-profit, or hybrid) is developing a new medical device, providing beauty and hair services, or supporting efforts to combat domestic violence, all businesses go through rounds of fundraising. Depending on the business and how soon it can begin generating revenue, the company may only need to go through one round of fundraising. In the examples above, a medical device company will need to raise millions of dollars through many funding rounds to be able to pay for the research and development needed to create the device. A non-profit with a mission to support reductions in domestic violence continuously finds funding to support its operations while a new salon may only need to go through one round of funding to raise enough money to purchase or lease building space and salon equipment.

Since grants are awarded without taking any portion of the company, every new business should consider soliciting grant funding from federal, state, or private institutions. Since some grant agencies have very specific requirements and only fund companies with specific characteristics, which can make it challenging to find a grant source that matches a company's mission, business model, or developmental stage.

Although there are no rules for fundraising, new companies typically fall into three categories depending on the business type (for-profit vs non-profit) and business stage (time until creating return for investors):

1. Non-profits – Organizations that have charitable or educational purposes are known as non-profits. Non-profits typically do not have owners and therefore cannot issue stock in exchange for an equity deal or convertible note. To finance the organization's operations (e.g. office space, salaries, programming budgets), non-profits continuously raise money through donations from the public, through grants from private charitable organizations, through grants from government agencies and through impact investments.

2. Early Return Business – Some newly founded business can quickly begin generating revenue from customers because they do not require significant resources to become established. Businesses that provide a service (e.g. childcare, hairstyling, free-lance photography, legal advice) or that provide a readily available good (e.g. food trucks, restaurants, candy shop) generally under go one round of financing to purchase equipment, rent office space, and to pay salaries before becoming. They then become revenue positive and begin to payback their financing sources. These businesses should pursue grant and debt financing.

3. Late Return Business – Some businesses will need to raise money over the course of several years because they require significant funding and time to develop their product. Biotechnology companies, for example, may spend over 5 years researching and developing a biomedical device or drug and, therefore are years away from generating revenue or selling their company and thereby at which point they would generate funds to pay back investors. These types of companies typically pursue all the funding types above but debt financing.

WHAT ORGANIZATIONS AND INSTITUTIONS PROVIDE FINANCIAL SUPPORT?

The following funding types could provide you with your first round of financing, typically anywhere from $10,000 to upwards of $500,000 depending on the source. Although more funding sources exist for more established companies (e.g., Venture Capital) and various organizations provide various types of financing, we focus on the people and organizations you should target first, specifically, government agencies, non-profit organizations, business competitions, friends and family, and angel investors. Examples, specifications, and instructions for applying to these funding sources are found in the following section.

Government Agencies (Grants, Debt) – State and federal governments have various funding programs that aim to spur economic growth by encouraging entrepreneurship. Some government entities serve as microlenders and offer small loans. Many, if not most, require attendance at regular meetings and mandatory business education programs before applying for loans.

Charities and Non-profit Organizations (Grant, Debt) – Many non-profit organizations provide grants or loans to individuals wanting to start a business or to individuals who have already started a business. Some non-profit, however, have specific requirements to the types of businesses or people that are eligible.

Banks (Debt) – Small business loans are a great mechanism for businesses that expect to generate revenue quickly to get off the ground. Banks, however, will often require that individuals provide a downpayment and collateral in return for a loan in case the individual defaults. An individual's personal assets (e.g., home, car, property) can be used as collateral.

Business Competitions (Grants, Convertible Notes, Equity Deals) – Business plan competitions provide financial support to early-stage companies that they believe will be successful. Most competitions request a fairly detailed business plan describing the company and product as well as other details demonstrating a potential for business success. Competitions can be focused on a specific industry or industries and almost always have specific eligibility requirements. For example a competition may require applicants to be affiliated, be at a certain developmental stage, or limit how funds can be used. Competitions typically award grants, either as a sum of money or in-kind services, and/or convertible notes.

Friends/Family (Debt, Convertible Notes, Equity Deals) – Friends and family who believe in an entrepreneur's idea and potential success could provide initial funding. Friends and family could provide a loan to be repaid at a future date, issue a convertible notes, or request equity in exchange.

Angel Investors (Convertible Notes, Equity Deals) – Angel investors are high net worth individuals wanting to invest in companies at their earliest stage with the hopes of receiving returns in the future. Generally, angels need to be accredited investors, meaning they have a net worth of at least $1 million and an annual income of $200,000 individually or $300,000 jointly with a spouse. Angel investors normally work in groups, or syndicates, in which they pay a membership fee to have the opportunity to invest. Generally, individual angels invest $25,000 and up into each company through convertible notes or equity deals. Although angels typically invest in any industry, each individual can have preferences for a specific industry, typically one she or he knows well. Angels often invest as part of Angel Investment groups in which they join together to ease the administrative burden of finding and finalizing investment deals.

Sue wants to start small and has a clear idea of her expenses for the next year. She has refined her value proposition and business pitch. Sue knows she will pay roughly $12,000 in her first year for rent and utilities, about $20,000 in salary for herself, $1,000 for a new oven, $2,000 for fixing up the new restaurant and purchasing chairs and tables, and about $5,000 in food ingredients. Therefore, to get started, Sue needs about $40,000 for her first year. Sue is confident she can get customers in the door and generating revenue quickly. Sue's father is a business owner and is willing to loan her $14,000 without any interest. Sue also applied to The BALSA Foundation and received $1,000. She is confident that with her good credit she will be able to solicit the remaining $25,000 from a bank through a business loan. Thanks to her diligence and hard-earned sweat equity, Sue will be running her own restaurant in no time!

WHAT FUNDING ORGANIZATIONS ARE THERE IN MISSOURI AND ST. LOUIS?

GOVERNMENT AGENCIES

Each federal, state, or city funding program have their own applications process and may provide multiple types of financing.

St. Louis County Economic Council Loan Programs – A number of loan opportunities are available from St. Louis county, for example: The Metropolitan St. Louis Loan Program, Minority/ Disadvantaged Contractor Loan Guarantee, Recycling Market Development Loan Program, SBA 504 Loan Program and Minority & Women's Pre-qualified Loan Program
Eligibility: For each of these programs, the individual must live and conduct business in St. Louis. Each has additional requirements that can be found in the link below.
Funding: $5,000-$150,000
Timeline: Rolling application
Application and Details: Details here for each of these programs

Missouri State Loan Programs – The two main loan programs offered through the State of Missouri are: the MO linked deposit for small businesses and the Missouri export finance program working capital loan guarantees.
Eligibility: Both require residents in Missouri and are restricted to for-profit businesses.
Funding: Up to $1M
Timeline: Rolling application
Application and Details: Details on the linked deposit program can be found here, and the Export Finance Program here.

Small Business Innovation Research; Small Business Technology Transfer (SBIR/STTR) – Federal government grant agency for R&D aimed to bring a technology to market.
Eligibility: US for-profit company with at least one full-time employee. Over 100 solicitations available at any time focused on specific or general goals.
Funding: $150k
Timeline: Application deadlines occur three times a year.
Application: Multi-page government grant proposal.

MTC Tech Launch – Grant matching program offered through the State of Missouri.
Eligibility: Missouri science and technology companies who are going to raise at least $100,000 in equity elsewhere and have not raised more than $250,000 to date.
Funding: You can request up to $100,000, if awarded, and you can raise $100,000 in equity elsewhere; they will match up to $100,000 through a convertible note.
Timeline: Bi-annual applications
Applications: details here

NON-PROFIT ORGANIZATIONS

Non-profit organizations provide various funding sources and typically target specific causes.

BioGenerator – BioGenerator's Pre-Seed Spark Fund is a convertible note and equity investment aimed to stimulate commercialization of early stage technologies in the St. Louis area. Accelerator Labs Award can be combined with the Spark Found, these allow bioscience entrepreneurs office and lab space within the BioGenerator facilities at Cortex.
Eligibility: Early-stage bio-science company in Saint Louis
Funding: $10,000-$50,000 as a convertible note or equity deal
Timeline: Apply any time of the year
Application: Fill out application form, which can be found here

Justine PETERSEN – The mission of Justine PETERSEN is to help small businesses and individuals achieve new levels of financial capability by focusing on building assets across Missouri and Illinois.
Eligibility: Depends on the financing program but support entrepreneurs at all stages
Funding: $500-$50,000 as microloans
Timeline: Apply any time of the year
Application: Complete the application that describes your business and plan here

Kiva – Kiva is a microfinance non-profit organization that facilitates the lending of microloans from anyone to anyone around the world.
Eligibility: Depends on the financing program but support entrepreneurs at all stages
Funding: $500-$5,000 as microloans
Timeline: Apply any time of the year
Application: Complete the application that describes your business and plan here

BUSINESS PLAN COMPETITIONS

St. Louis business plan competitions provide grants, convertible notes, and/or equity deals.

Arch Grants – A non-profit organization that offers startups funding in the form of grants and in-kind services for startups as they become established or transition to the City of St. Louis.
Eligibility: For-profit businesses in all industries. Startup companies must be located in or be willing to relocate its headquarter to St. Louis.
Funding: $50,000 grant; pro-bono accounting, legal, marketing, HR, financial consulting, banking, and mentoring services.
Timeline: Application opens in the each fall. Awards are announced in July of the following year.
Application: Competition occurs in three rounds, ending with a business plan and presentation.

Dutia Global Impact Award: Washington University in St. Louis funding source aiming to fund start-ups that will have a global impact.
Eligibility: WUSTL-affiliated companies that have raised less than $1M at date of application.
Funding: Up to $50,000 grant.

Timeline: Once a-year business plan competition which begins in the Spring
Application: Details Here

Startup Challenge – Business plan competition organized by Edward Jones and St. Louis Economic Development Partnership aimed at promoting entrepreneurship in St. Louis.
Eligibility: All industries. Businesses may be new or early-stage companies with no more than $100,000 in annual revenue. Applicant entities must be located in the St. Louis region. See website for additional rules and requirements.
Funding: 1) Top three winners will be awarded with a total of $100,000 cash, office space within STLVentureWorks incubator network, enrollment in Center for Business Growth mentoring program, as well as accounting, legal and marketing services. 2) Bright Future Entrepreneurial Inclusion Awards ($5,000) for minority, women, immigrant, and veteran entrepreneurs in the St. Louis region.
Timeline: Beginning of fall, online applications.
Application: Competition consists of several steps over six months, including initial application, business analysis, video pitch, presentation, and interview with the judging panel.

Helix Fund
Eligibility: The Helix Fund co-invests with specific partners to promote the growth of bioscience and related technology businesses in St. Louis County. Eligible companies must be referred to the Helix Fund for investment consideration by one of their partners. An eligible company that already has the support of one of our partners may also request funding directly, but only after the partner has committed funding to the specific opportunity.
Funding: $50,000
Timeline: Anytime
Application: Contact Christine Karslake, VP of Innovation and Entrepreneurship at the STL Partnership, CKarslake@stlpartnership.com

Capital Innovators – provides tech startups with $50k in equity financing, a incubator program, and connections for their business development.
Eligibility: Tech-related businesses or ideas, typically web-based, mobile, or other software-as-a-service (SaaS) startups. Tech companies at all stages during the life cycle of a startup, pre- or post- revenue, are eligible to apply. Companies with a functioning prototype of their product are preferred.
Funding and Accelerator details: $50,000 in seed funding in exchange for equity to five companies per class. Project-based mentorship from a seasoned pool of knowledgeable experts, networking, and follow-on funding opportunities over the course of 12 weeks.
Timeline: Capital Innovators run a Fall and Spring 12-week Accelerator Programs each year.
Application: Online business analysis, details here

Olin Cup – Business plan competition sponsored by the Skandalaris Center at the Olin Business School at WUSTL.
Eligibility: Businesses in all industries. Applicant teams must include at least one WUSTL student, alumnus, faculty, or staff member.

Funding: A total of $70,000 will be awarded to top two winners ($50,000 to the first place finishing team, $20,000 to the second place finishing team). Winners may receive in-kind services from one or more of the competition sponsors. Full- or part- time WUSTL students on the highest performing Olin Cup team will receive a $5,000 student cash prize.
Timeline: Detailed schedule can be found here.
Application: Olin Cup consists of several tasks over three months, including initial idea submission on the IdeaBounce website, executive summary submission, elevator pitches, business plan submission, and final presentations.

Social Enterprise and Innovation Competition (SEIC) – Social enterprise business plan competition sponsored by Washington University in St. Louis' Skandalaris Center for Interdisciplinary Innovation and Entrepreneurship and Youth Bridge.
Eligibility: Social enterprises in any mission space or industry; for-profits, non-profits and hybrid legal structures welcome; Wash U "DNA" not required.
Funding: Up to $300,000 will be awarded to as many as 10 winners with awards ranging from $5,000 to $60,000 depending on the interest of the funders. Full- or part- time WUSTL students on the highest performing Olin Cup team will receive a $5,000 student cash prize.
Timeline: Detailed schedule can be found here.
Application: SEIC consists of several tasks over three months, including initial idea submission on the IdeaBounce website, executive summary submission, elevator pitches, business plan submission, and final presentations.

Sixthirty – Business plan competition and mentorship program focusing on finance technology (Fintech) companies.
Eligibility: Companies must be focused on fintech and a working product, but do not need to be generating revenue.
Funding: $100,000 plus mentorship.
Timeline: Fall applications close in mid-summer and spring applications close in mid-winter
Application: A 32-question f6s application covering the company team, product, history, and financials.

MADE in MO – *Business plan competition for MO-based companies*
Eligibility: The MADE In Missouri State Entrepreneurship Competition is open to any resident of Missouri interested in developing a new or an aspiring business idea and would house that business in Missouri. Businesses currently in existence for less than three years are eligible to compete. Participants aged 18 and under may enter in either the Youth or Open category, and participants 19 and over enter in the Open category.
Funding: Three grants awarded annually, $1-5k
Timeline: Spring initial application deadline, finals at the MO-state Fair
Application: A series of questions in a word doc.

Prosper Startup Accelerator
Eligibility: Prosper supports women-led startups with a focus on technology, health care, and consumer products. They define a women-led business as a company with at least one woman in a position of leadership and meaningful equity.
Funding: $50k, and extensive training process
Timeline: Spring and Fall application deadlines

Application: Series of questions about the business through the F6S application

ANGEL INVESTORS

The process of soliciting angel funding is unique to each group and can take various forms. Angel groups normally require an online application which is pre-screened by the organization. Selected companies pitch to the entire angel group. If a few angels are interested in the company, the angel group then leads a due diligence process to further vet the team and business, which can take several months. If angels want to proceed with the investment, the angel and company negotiate terms of agreement.

Billiken Angels Network – Angel group associated with Saint Louis University.
Eligibility: Full business plan required, along with presentation. Only invest in St. Louis companies or companies associated or affiliated with SLU.
Funding: Typically $250k-$1M in convertible notes
Timeline: Anytime
Application: Complete business plan online application through gust.

Saint Louis Arch Angels – Angel group focused on St. Louis' seed to later stage equity capital continuum targeting an investment range that is generally underserved by institutional venture capital firms
Eligibility: Full business plan required, they invest in first-of-a-kind new ideas, rather than incremental enhancements to common products and services.
Funding: $250-$750k investments.
Timeline: Anytime, after submitting application they will hold a screening session to judge your pitch before deciding if it is ready for the full group.
Application: Complete business plan online application through gust.

CROWDSOURCING SITES

KickStarter – The most heavily trafficked crowdfunding site. An entrepreneur launches a project to try and raise funding for their finite work with a clear goal that they'd like to bring to life. The funding goal is the amount of money that a creator needs to complete their project. Funding on KickStarter is all-or-nothing. No one will be charged for a pledge towards a project unless it reaches its funding goal. This way, creators always have the budget they scoped out before moving forward. A creator is the person or team behind the project idea; working to bring it to life. Backers are folks who pledge money to join creators in bringing projects to life. Rewards are a creator's chance to share a piece of their project with their backer community. Typically, these are one-of-a-kind experiences, limited editions, copies of the creative work being produced, other tangible incentives, or simply a "thank you" and a promise to use the funding towards a creative and original project.
Eligibility: No restrictions other than a campaign cannot be used to fund charities or offer financial incentives. Creators must be US residents, over 18, and have drivers license, bank account, and/or credit card.
Funding: All but 5% of the funds raised, which KickStarter retains.
Timeline: A campaign can be started at anytime.

Crowdit – CrowdIt is a next generation crowdfunding platform for causes, projects, and businesses in the areas of donation based, reward/incentive based, and hopefully soon equity based crowdfunding. We have created a community website where “Dreamers” can post a project or Dream offering rewards/incentives or equity in exchange for donations, contributions and pledges from “Believers” and “Suits”. Based out of Springfield, Missouri, Crowdit draws upon that community to ensure the Dreams that appear on the site are inspirational and meaningful.

Eligibility: Anyone from anywhere in the world can post a rewards / incentives project.

Funding: All but 5 to 10% of the funds raised, which crowdit retains.

Timeline: A campaign can be started at anytime.

Accounting

Through the course of your business life, your business will have many financial transactions. You will find investors that provide the initial funds to start your operations (Financing), you will determine how to use those funds to begin your business (Investing), and you will need to keep track of sales and expenses once your business is up and running (Operating). In this section, we will introduce the common accounting activities of Financing, Investing, and Operating. We then explain how all these accounting activities are documented through Income Statements, Balance Sheets, and Cash Flow Statements. Finally, we work through an example of a financial statement for a company that is operational with step-by-by explanations.

FINANCING ACTIVITIES

Having decided on a business idea, your top priority is to find money to create your business; this is also known as financing your business (also see "Financing" funding resources). Financing activities are transactions between business owners and money lenders, like banks or investors. Later in the life of a company, the company might undo its financing by paying off loans or by paying a dividend to shareholders. Although you may be able to receive money through grants or gifts from family and friends, most business are started through debt or equity financing.

DEBT FINANCING – LIABILITIES

Debt financing refers to cash (money) received from lenders in exchange for a commitment to repay principal at a specific future date, with a specific interest rate. A typical example of debt financing is receiving a loan from the bank. In accounting terminology, a loan is considered a "liability" because, like other forms of debt, must be paid back.

EQUITY FINANCING – OWNERS' EQUITY

Equity financing refers to cash (money) received from an individual or from individuals in exchange for part or full ownership of the company. Individual(s) who own a portion of a company own "shares" of the company. These shares entitle the owners to (but do not guarantee) potential payments (dividends) and can increase in value as the company becomes more valuable.

- Contributed Capital – The money contributions a business received from owner(s)/shareholders.
- Common Stock – Money contributions received when a company issues shares to shareholders.
- Preferred Stock – Money contributions received when a company issues shares to shareholders, but with a greater claim than common stock holders.

OTHER TYPES OF FINANCING

- **Convertible Note** – Short term debt that converts into equity. In this form of financing, an investor loans money to a company, and rather than get their money back with interest, investors receive shares of preferred stock of the value of the loan at some future date.

INVESTING ACTIVITIES

Once you have financed your business, your next priority is to invest the raised cash (money) in company assets. In accounting terminology, an asset is anything of value that can be converted into cash (i.e. sold). Examples of investing activities include the purchase (or sale) of:

- **Plant, Property and Equipment (PP&E)**, which are tangible assets with a useful life longer than one year, such as buildings, land, and machinery.
- **Intangible Assets**, which are not physical items but have monetary value (e.g. patents).
- **Marketable Securities**, which consist of financial assets, such as securities (e.g. shares) in another companies.

OPERATING ACTIVITIES

Once you have invested in the establishment of your business, you will need to manage the day-to-day operations: the **purchasing and selling of goods/services**. Consider a shoe making company that purchases leather and rents a factory for making shoes:

PURCHASING GOODS/SERVICES

Cash payment for the purchase of goods (e.g. leather) or services (e.g. rent and utilities) takes place in one of three ways: cash, credit, or prepayment:

1. A **cash purchase** is paid immediately at the time of purchase.
2. A **credit purchase** is paid sometime after the purchase. Payments a business still owes to suppliers are called “Accounts Payable.”
3. A **prepayment** to the supplier is paid before the purchase. Payments for which a business has not received the good/service yet, are called “Prepaid Expenses.”

Typically, if the shoe making company is small and does not have a credit history, then it will have to pay immediately using cash or credit card to its leather suppliers at the time of purchase (Type 1: cash purchase). For its utilities, the shoe making company will receive services one month and pay the following month (Type 2: credit purchase), and for rent, the shoe making company will prepay the landlord for using the factory for the coming month(s) (Type 3: prepayment).

SELLING GOODS/SERVICES

Cash receipt from customers for the sale of goods (e.g. shoes) or services (e.g. hair cut) also takes place in one of three ways: cash, credit or prepayment:

1. A cash sale is payment received at the time of sale.
2. A credit sale is payment received after the sale. Payments for a sold good or service that a business has not received from customers are "Accounts Receivable."
3. A prepayment from a customer is payment received before a good/service is provided. Payments for which a customer is still owed the good/service are "Advances from Customer."

Often a small business will operate by requiring cash sales from its customers (Type 1: cash sale). Note, credit card sales are considered to be cash sales since the business receives the cash immediately from the credit card company. Businesses will typically try to provide credit to their larger customers (Type 2: credit sale). For example, the shoe company may have a department store as a customer and could allow the department store to pay for the purchase of a few dozen shoes at a later time (e.g. within 30 days) possibly in the hope of having them buy a larger amount as a result. Sometimes a business may demand that the customers prepay (in full or in part) before the product is delivered (Type 3: prepayment). For example, if the product is a custom-produced shoe, the shoe company does not want to run the risk of the customer changing their mind once the product is delivered and then refuse to pay. The shoe company would require the customer to prepay for the custom shoe. Companies that work on a subscription model, such as magazine publishers, also operate by requiring that customers prepay.

FINANCE SHEETS

All companies document the business activities listed above using Balance Sheets, Income Statements, and Cash Flow Statements. These financial records are used by the company to assess its business activities and demonstrate the value and operation of their business.

BALANCE SHEET

A Balance Sheet is a financial statement that summarizes a company's assets, liabilities, and shareholder's equity at a specific point in time. A company owns its assets and pays for them by borrowing money (liability) or selling ownership of the company (equity). This document is called a balance sheet because the *assets* must always balance out (equal) the *liabilities and equity*. These three balance sheet segments give investors an idea as to what the company owns and owes as well as the amount of money that has been invested into the company.

DEFINITIONS/EQUATIONS

Assets = Liabilities + Shareholders Equity

- Asset: an economic resource owned by a business expected to benefit future operations
    - Accounts receivable (A/R): money that is owed to a business but not yet received
    - PP&E: Property, plant, and equipment
    - Inventory: goods/materials a business holds for purpose of selling in the future
- Liability: payment promise to be fulfilled in future time periods: in service, products, or cash
    - Accounts payable (A/P): money that a business owes to someone that has not yet been paid
- Equity: owner's claims to, or interest in, the business entity's assets
    - Capital accounts: shareholders, members
    - Retained earnings: portion of a company's net earnings that it doesn't pay off to shareholders as dividends, but rather uses to reinvest in the business or pay off debts

Example Balance Sheet (US Dollars) – Company ABC

		December 31, 2010	December 31, 2011	September 30, 2012
ASSETS				
Cash and Equivalents	$	87900	90000	95000
Raw Material Inventory		2000	4500	10000
Supplies Inventory		9400	9400	9400
Accounts Receivable		1000	2110	9500
Prepaid Expenses		1400	2000	2600
Total Current Assets		101700	108010	126500
Property, Plant, & Equipment		0	200000	262000
Total Non-Current Assets		0	200000	262000
Other Assets		1200	45790	52000
TOTAL ASSETS	$	102900	353800	440500
LIABILITIES				
Accounts Payable	$	4000	6800	87000
Wages Payable		4400	8000	14000
Accrued Interest		-	2000	3000
Mortgage Loan		-	45000	36000
Short Term Loan Payable		4500	2000	500
Total Liabilities		12900	63800	140500
OWNERS' EQUITY				
Contributed Capital		90000	290000	300000
Retained Earnings		0	0	0
TOTAL LIABILITIES AND EQUITY	$	102900	353800	440500

INCOME STATEMENT

Also known as a Profit/Loss (P/L) Statement, an Income Statement documents a company's financial performance over a specific accounting period. The financial performance is assessed by summarizing a business' revenues and expenses through operating, financing, and investing activities described above. The income statement shows the net profit or loss incurred over a specific period (e.g. fiscal year, quarter, month, etc.).

DEFINITIONS/EQUATIONS

Operating P/L = Revenues – Operating expenses

- Revenue: cash from sale of products or services
- Expense: goods, materials, or services purchased & USED within the current period. Purchases not used in the period may be INVENTORIED or CAPITALIZED and are not included in the Income Statement.
- Variable Costs: costs incurred when a unit of product or service is produced (e.g. labor or materials). For example, if one ounce of butter is needed for one loaf of bread, the variable cost of butter is one ounce.
  - COGS: costs of goods sold
  - COSS: costs of services sold
- Fixed Costs: costs that are not dependent on the number of products or services produced. For example, the monthly rent does not change whether a baker makes one loaf of bread of 100 loaves of bread.
- Other income/expenses not related to primary business operations: sales of assets, interest earned, interest paid, taxes, depreciation, and amortization.
- Gross Margin/Profit = Revenue – Variable costs
- EBITDA: Earnings Before Interest, Tax, Depreciation, and Amortization

Example Income Statement (US Dollars) – Company ABC

		Year Ended December 31,		9 months ended September 30
Revenue		**2010**	**2011**	**2012**
	Widget Sales	120	140	125
	Gadget Sales	20	60	90
	Service	0	10	15
	Total Revenue	140	210	230
Cost of Goods Sold				
	Widgets	30	35	25
	Gadgets	15	40	30
	Total COGS	45	75	55
Gross Profit		95	135	175
Expenses				
	Research and Development	40	60	40
	Sales and Marketing	15	20	15
	General and Administrative	25	30	25
	Total Expenses	80	110	80
Operating Income		15	25	95
	Interest	5	8	6
	Tax	12	15	35
Net Income		(2)	2	54

CASH FLOW STATEMENT

A document showing aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments during a given quarter. It is important to keep track of operating cash at minimum on a monthly basis in order to see positive, break-even, and negative (underfunded) operating cash periods, and also not forgetting about accessible cash from your PP&E if you borrow against it. This allows you to see if you are able to accomplish goals requiring cash (i.e. pay bills or "make payroll"/pay employees).

DEFINITIONS/EQUATIONS

Net Cash Balance = (Beginning cash + Sales) – Operating expenses +/- Capital expenditures

- Operating Cash Flow: Cash from sales minus operating expenses
- Investing Cash Flow: Cash gained or lost due to investments, as such selling or purchasing property or equipment
- Financing Cash Flow: Cash gained or lost due to financing activities such as paying a mortgage

Cash Flow Statement (US Dollars) – Company ABC

	Year Ended December 31,		9 months ended September 30
OPERATING ACTIVITIES	**2010**	**2011**	**2012**
Cash from Customers	400	600	900
Cash to Suppliers	(65)	(65)	(70)
Cash to Employees	(450)	(500)	(500)
Cash paid in Interest	(40)	(40)	(45)
Cash Flow from Operations	(155)	(5)	285
INVESTING ACTIVITIES			
PP&E Purchases	0	50	100
Cash Flow for Investing	0	50	100
FINANCING ACTIVITIES			
Equity Financing	50	8	15
Loan/Mortgage Financing	100	25	65
Paid Dividend	0	(6)	(12)
Cash Flow from Financing	150	27	68
Net Cash Flow	(5)	72	453
Beginning Balance of Cash	0	(5)	67
Ending Balance of Cash	(5)	67	520

Case Study for Creating Financial Sheets from Common Business Activities

Sue opened her pizza business on July 1, operating under the name Sue's Pizzeria. Sue's Pizzeria engages in the following transactions during July:

1. Sue contributed $5,000 cash into the business.

2. Sue's Pizzeria purchased and paid $700 for used baking ovens.

3. Sue's Pizzeria purchased and paid $400 for pizza making supplies.

4. Sue's Pizzeria purchased $340 of additional pizza making supplies but will not pay the supplier until August 1st for this amount.

5. Sue's Pizzeria purchased $500 of pizza raw materials (i.e. dough, vegetables, etc.) to make the pizza.

6. Sue's Pizzeria received $3,500 in cash sales from pizza.

7. Sue's Pizzeria collected $1,000 from an equity investor.

8. Sue wants to expand her business to include a food-truck and have additional cash-on-hand so she borrowed $5,000.

9. Sue's Pizzeria purchased a food truck for $3,000.

10. Sue's Pizzeria received $850 in sales from pizza on credit (i.e. the customers still owe Sue's Pizzeria).

11. Sue's Pizzeria paid $1,000 for building rent.

12. Sue's Pizzeria paid a $10 dividend for every $1000 of equity investment (for a total of $60) to investors.

13. Sue's Pizzeria received an insurance bill of $900 for coverage beginning August 1. No transaction occurred.

14. After checking inventory at the end of the month, Sue sees that they have consumed 50% of their pizza making supplies (worth $370), and 80% of their pizza raw materials (worth $400).

15. Sue's Pizzeria pays Sue a wage of $1000.

16. Sue's Pizzeria pays $100 in taxes.

Below is a Worksheet that shows how each event from above is entered and how this directs placement in each of the Financial Statements. For the Balance Sheet, these are summed at the right in the blue column under "End Balance." For the Income Statement, the sums are taken from the green section. For the cash flow statement, the cash transactions are classified by: Operations (Op), Investing (Inv), or Financing (Fin). See below for rationale for each event.

Sue's Pizzeria	Beg. Bal.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Close Rev/Exp Accounts	End. Bal.
ASSETS																			
Cash	0	5000	(700)	(400)		(500)	3500	1000	5000	(3000)		(1000)	(60)			(1000)	(100)		7740
Op/Inv/Fin		fin	inv	op	op	op	op	fin	fin	inv	op	op	fin	op	op	op	op		
Raw Material Inventory	0					500									(400)				100
Supplies Inventory	0			400	340										(370)				370
A/c Receivable	0										850								850
Prepaid Expenses	0																		0
PP&E	0		700							3000									3700
Total Assets	0																		12760
LIABILITIES																			
A/c Payable	0				340														340
Wages Payable	0																		0
Loan/Mortgage Payable	0								5000										5000
OWNERS EQUITY																			0
Contributed Capital	0	5000						1000											6000
Retained Earnings	0												(60)					1480	1420
Revenues							3500				850								
COGS Expenses															(770)				
Operating Expenses												(1000)							
Wages Expenses																(1000)			
Interest Expenses																			
Tax Expenses																	(100)		
Total Liabs & OE	0																		12760
				Color Key:		Income Statement Data			Balance Sheet Data			Cash Flow Statement Data							

Balance Sheet		
Sue's Pizzeria		
as at July 31		
ASSETS		
Cash	7740	
Raw Material Inventory	100	
Supplies Inventory	370	
A/c Receivable	850	
Prepaid Expenses	0	
Total Current Assets		9060
PP&E	3700	
Total Non-Current Assets		3700
Total Assets		12760
LIABILITIES		
A/c Payable	340	
Total Current Liabilities		340
Wages Payable	0	
Loan/Mortgage Payable	5000	
Total Liabilities		5340
OWNERS' EQUITY		
Contributed Capital	6000	
Retained Earnings	1420	
Total Owner's Equity		7420
Total Liabilities & Owners' Equity		12760

Income Statement		
Sue's Pizzeria		
for month of July		
Sales Revenues	4350	
Costs of Goods Sold (COGS) Exp	770	
Gross Margin		3580
Selling, General and Admin Exp	1000	
Operating Income		2580
Interest Expense	0	
Earnings before Tax		2580
Tax Expense	100	
Net Income		2480

Statement of Cash Flows		
Sue's Pizzeria		
for month of July		
OPERATING ACTIVITIES		
Cash from Customers	3500	
Cash to Suppliers	(1900)	
Cash to Employees	(1000)	
Cash paid in Interest		
Cash paid in tax	(100)	
Cash Flow from Operations		500
INVESTING ACTIVITIES		
PP&E Purchases	(3700)	
Cash Flow for Investing		(3700)
FINANCING ACTIVITIES		
Equity Financing	11000	
Loan/Mortgage Financing	0	
Paid Dividend	(60)	
Cash Flow from Financing		10940
Net Cash Flow		**7740**
Beginning Balance of Cash		0
Ending Balance of Cash		7740

Explanation for Workbook placement

When you add a financial transaction to both sides (Assets side and Liability/Equity side) of the balance sheet, the result is a "balanced workbook." Alternatively, if the financial transaction is entered only on one side of the balance sheet, the result is "net assets monetarily unchanged."

1. Sue contributed $5,000 cash into the business.

Explanation: $5000 in Cash under assets from equity financing, and $5000 under Contributed Capital under Owner's Equity (OE) = balanced workbook.

2. Sue's Pizzeria purchased and paid $700 for used baking ovens.

$700 is an equipment purchase, so deduct $700 from cash and add $700 to PP&E since you still retain the value of the equipment = net assets monetarily unchanged.

3. Sue's Pizzeria purchased and paid $400 for pizza making supplies.

$400 is a supply expense, so deduct $400 from cash and add $400 to supplies inventory since that is the value of the inventory = net assets monetarily unchanged.

4. Sue's Pizzeria purchased $340 of additional pizza making supplies but will not pay the supplier until August 1st for this amount.

$340 is a supply expense. However, it was purchased on credit, so $340 is put in Accounts Payable under liabilities, and $340 is added to supplies inventory as that's the inventory value = balanced workbook.

5. Sue's Pizzeria purchased $500 of pizza raw materials (dough, vegetables, etc.) to make the pizza.

$500 is a raw materials expense, so deduct $500 from cash and add $500 to raw material inventory since that is the value of the inventory = net assets monetarily unchanged.

6. Sue's Pizzeria received $3,500 in cash sales from pizza.

$3500 added to Cash under Assets for pizza sales, and to Revenues under OE = balanced workbook.

7. Sue's Pizzeria collected $1,000 from an equity investor.

$1000 in Cash under Assets from equity financing and $1000 under Contributed Capital under OE = balanced workbook.

8. Sue wants to expand her business to include a food-truck and have additional cash-on-hand so she borrowed $5,000.

$5000 in Cash under Assets from financing through bank loan and $5000 under Loan/Mortgage Payable under Liabilities = balanced workbook.

9. Sue's Pizzeria purchased a food truck for $3,000.

$3000 is an equipment purchase, so deduct $3000 from cash and add $3000 to PP&E since you still retain the value of the equipment = net assets monetarily unchanged.

10. Sue's Pizzeria received $850 in sales from pizza on credit (i.e. the customers still owe Sue's Pizzeria).

$850 added to accounts receivable under assets since the customer has not yet paid for the pizza under, and $850 added to Revenues under OE = balanced workbook.

11. Sue's Pizzeria paid $1,000 for building rent.

$1000 rent which is an operating expense. Deduct $1000 from Cash under Assets and deduct $1000 under operating expense = balanced workbook.

12. Sue's Pizzeria paid a $10 dividend for every $1000 of equity investment (for a total of $60) to investors.

$60 in dividends paid by deducting from Cash under Assets and deducted from Retained Earnings under OE = balanced workbook.

13. Sue's Pizzeria received an insurance bill of $900 for coverage beginning August 1. No transaction occurred.

Nothing is done for this operating expense at present as bill was received, but not paid until the next month.

14. After checking inventory at the end of the month, Sue sees that they have consumed 50% of their pizza making supplies (worth $370), and 80% of their pizza raw materials (worth $400).

Inventory check results in decreasing the supplies ($370) and raw material ($400) inventory value under Assets, and deducting $770 under costs of goods sold (COGS) expense from OE = balanced workbook.

15. Sue's Pizzeria pays Sue a wage of $1000.

Wages of $1000 are paid to the employees and therefore deducted from Cash under Assets, and wage expenses under OE = balanced workbook.

16. Sue's Pizzeria pays $100 in taxes.

The IRS gets their required cut which is $100 deducted from Cash under Assets, and tax expenses under OE = balanced workbook.

Contact Information

THE BALSA FOUNDATION

The BALSA Foundation is the philanthropic arm of The BALSA Group focused on helping individuals start businesses. We provide informational resources, peer-to-peer advising, and non-dilutive funding to people wanting to get their business dreams off the ground. We support individuals who may not have access to such expertise or financial capital and who are in the process of starting their first business.

Our mission is to make entrepreneurship accessible – and success attainable – to everyone. We aim to cultivate an inclusive entrepreneurial culture in St. Louis by preparing any inventor or creative thinker to enter the St. Louis entrepreneurial community.

Please contact us if you have suggestions on how to improve The Entrepreneur's Roadmap.

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