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# Building Financial Projections

January 23, 2014

Charlie Tillett  
SM '91

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# Agenda

## Business Plan Financials

- What VCs (and \$100K Judges) Want
  - What is a Business Model
  - Building YOUR Financial Projections
- 
- Sharing the Pie



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# Background

- 1991 Sloan SM: Entrepreneurial Finance
- Third Place 1990 \$10K Contest
  - Summer Intern - Boston Capital Ventures
- '91 to '00 CFO: NetScout Systems (NTCT)
- \$51M in 2 VC financings
  - IPO in August 1999
- '02 to '07 CFO: Reveal Imaging Technologies
- 9 financing transactions
  - Sold to SAIC for \$230M in 2010

Raised \$125 million in 10+ Transactions

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# I'm too busy to do Financials!

- It is going to be wrong
- VC's don't believe them anyway
- I have IMPORTANT things to do
  - Product
  - Technology
  - Customers
  - Team
  - etc.



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# Here's Why!

- Financials are the Scoreboard
- Understand Your Business
  - Assumptions
  - Drivers
  - Milestones
  - Exposures/Risks

**Failure to plan is planning to fail**



# The Startup CEO Role

- Job #1
  - Maintain oxygen supply!
- You're not an accountant but need to understand
  - Average Selling Price (ASP)
  - Gross margins
  - Cost of R&D
  - Sales & Marketing strategy & expense
  - Start-up and/or Capital Expenses

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# Are Financial Projections Important?

## Reveal Imaging Timeline - \$42.5M raised

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- Q4 '02            Founded
- Q1 '03            Angel Round                                 \$1M
- Q3 '03            VC: Series A-1                                 \$5M
- Q2 '04            Bank: Equipment Line                         \$500k
- Q3 '04            VC: Bridge Loan                                \$1M
- Q1 '05            VC: Series A-2                                 \$5M
- Q2 '05            Venture Debt                                   \$4M
- Q3 '05            VC: Series B                                    \$5M
- Q2 '06            Bank: A/R Line of Credit                     \$6M
- Q3 '06            Private Equity: Debt                         \$15M

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**Financial Plan provided the roadmap to DETERMINE cash needs and the VEHICLE to obtain that cash.**





# What VCs Want

- VC Investment goals:
  - 3x to 5x absolute returns
  - 5 to 7 year investment horizon
  - 4x in 5 years = IRR of 32%
- VC Requirements
  - Get a “significant” amount of \$ invested (at least \$5M - \$10M)
  - Own a “significant” ownership % (50% +-)
- The “Formula”
  - $VC \% = \$invested / (pre\text{-}money\ valuation + \$invested)$
  - Pre-money valuation is company’s value prior to investment
  - $Post\text{-}money\ valuation = pre\text{-}money + \$invested$

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# What VCs Want - EXAMPLE

- Investment Rounds
  - Series A - \$5M invested on \$5M pre-money (50%)
  - Series B - \$10M invested on \$15M pre-money (40%)
  - Note – Series A 50% ownership is diluted by 40% to 30%
- \$ Invested and Ownership %
  - VC has \$15M invested
  - VC owns 70% (30% + 40%)
- Result
  - $3 * \$15M = \$60M$  --  $5 * \$15M = \$90M$
  - Company valuation needs to be \$85M and \$130M
  - Your revenues need to be \$40M to \$60M

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# Typical Dilution

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	At Founding		After Early Emp.		Post Angel		Post VC 1		Post VC 2	
	Shares	%	Shares	%	Shares	%	Shares	%	Shares	%
Founders	4,000,000	100.0%	4,000,000	88.9%	4,000,000	80.0%	4,000,000	30.3%	4,000,000	18.2%
Key Early Employees	-	0.0%	425,000	9.4%	425,000	8.5%	425,000	3.2%	425,000	1.9%
Advisors	-	0.0%	75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%
Option Plan	-	0.0%	-	0.0%	-	0.0%	1,610,000	12.2%	1,610,000	7.3%
Investors										
Angels (\$500K at \$4.5MM)					500,000	10.0%	500,000	3.8%	500,000	2.3%
VC Round (\$5MM at \$5MM)							6,610,000	50.0%	6,610,000	30.0%
VC Round (\$10MM at \$15MM)									8,813,333	40.0%
Total Investors	-	0.0%	-	0.0%	500,000	10.0%	7,110,000	53.8%	15,923,333	72.3%
Grand Total	4,000,000	100%	4,500,000	100%	5,000,000	100%	13,220,000	100%	22,033,333	100%



# What is “The Business Model”

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An Income Statement in % terms

- Once the business reaches “critical mass”
  - Unit volume
  - Geography
  - Transactions or Customers

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- Documents how KEY ASSUMPTIONS fit together to create a business that **MAKES MONEY**



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# Income Statement Example

## For a generic technology company

Sales (Revenue)	\$ 50.0	100%	After discounts
Cost of Goods Sold (COGS)	<u>\$ 20.0</u>	<u>40%</u>	Direct & indirect costs but NOT R&D
Gross Profit (Gross Margin)	\$ 30.0	60%	Sales minus COGS
Sales & Marketing (S&M)	\$ 15.0	30%	
Research & Development (R&D)	\$ 5.0	10%	
General & Admin (G&A)	<u>\$ 2.5</u>	<u>5%</u>	Rent, Accounting, HR, IT
Total Expenses	\$ 22.5	45%	
Operating Profit (EBITDA)	\$ 7.5	15%	Gross Profit minus Total Expenses

# Example - 4 year Income Statement

## What Investors Look At

P & L by Year		Source	Year 1		Year 2		Year 3		Year 4					
<b>Revenue</b>														
Model 1	P&L By Qtr	\$	1,275,000	100%	\$	10,500,000	88%	\$	33,750,000	82%	\$	37,500,000	50%	
Model 2	P&L By Qtr	\$	-	0%	\$	1,400,000	12%	\$	5,250,000	13%	\$	27,500,000	36%	
Model 3	P&L By Qtr	\$	-	0%	\$	-	0%	\$	2,400,000	6%	\$	10,500,000	14%	
<b>Total Revenue</b>			<b>\$ 1,275,000</b>	<b>100%</b>	<b>\$ 11,900,000</b>	<b>100%</b>	<b>\$ 41,400,000</b>	<b>100%</b>	<b>\$ 75,500,000</b>	<b>100%</b>				
<b>COGS</b>		P&L By Qtr	\$	425,000	33%	\$	3,920,000	33%	\$	13,385,000	32%	\$	23,200,000	31%
<b>Gross Margin</b>			<b>\$ 850,000</b>	<b>67%</b>	<b>\$ 7,980,000</b>	<b>67%</b>	<b>\$ 28,015,000</b>	<b>68%</b>	<b>\$ 52,300,000</b>	<b>69%</b>				
<b>Expenses</b>														
Engineering	P&L By Qtr	\$	1,326,625	104%	\$	3,475,275	29%	\$	7,212,188	17%	\$	12,205,975	16%	
Marketing	P&L By Qtr	\$	710,750	56%	\$	1,810,750	15%	\$	3,239,350	8%	\$	5,300,000	7%	
Sales	P&L By Qtr	\$	1,214,250	95%	\$	3,466,500	29%	\$	7,171,500	17%	\$	12,393,500	16%	
G&A	P&L By Qtr	\$	964,575	76%	\$	1,817,750	15%	\$	3,117,000	8%	\$	5,308,000	7%	
<b>Operating Exp.</b>			<b>\$ 4,216,200</b>	<b>331%</b>	<b>\$ 10,570,275</b>	<b>89%</b>	<b>\$ 20,740,038</b>	<b>50%</b>	<b>\$ 35,207,975</b>	<b>47%</b>				
<b>Operating Profit</b>			<b>\$ (3,366,200)</b>	<b>-264%</b>	<b>\$ (2,590,275)</b>	<b>-22%</b>	<b>\$ 7,274,963</b>	<b>18%</b>	<b>\$ 17,092,025</b>	<b>23%</b>				

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# Example - 4 year Income Statement

## What YOU should look at



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P & L by Year			Year 1		Year 2		Year 3		Year 4					
	Source													
<b>Revenue</b>														
Model 1	P&L By Qtr	\$	1,275,000	100%	\$	10,500,000	88%	\$	33,750,000	82%	\$	37,500,000	50%	
Model 2	P&L By Qtr	\$	-	0%	\$	1,400,000	12%	\$	5,250,000	13%	\$	27,500,000	36%	
Model 3	P&L By Qtr	\$	-	0%	\$	-	0%	\$	2,400,000	6%	\$	10,500,000	14%	
<b>Total Revenue</b>		\$	<b>1,275,000</b>	100%	\$	<b>11,900,000</b>	100%	\$	<b>41,400,000</b>	100%	\$	<b>75,500,000</b>	100%	
<b>COGS</b>		P&L By Qtr	\$	425,000	33%	\$	3,920,000	33%	\$	13,385,000	32%	\$	23,200,000	31%
<b>Gross Margin</b>			\$	<b>850,000</b>	67%	\$	<b>7,980,000</b>	67%	\$	<b>28,015,000</b>	68%	\$	<b>52,300,000</b>	69%
<b>Expenses</b>														
Engineering	P&L By Qtr	\$	1,326,625	104%	\$	3,475,275	29%	\$	7,212,188	17%	\$	12,205,975	16%	
Marketing	P&L By Qtr	\$	710,750	56%	\$	1,810,750	15%	\$	3,239,350	8%	\$	5,300,000	7%	
Sales	P&L By Qtr	\$	1,214,250	95%	\$	3,466,500	29%	\$	7,171,500	17%	\$	12,393,500	16%	
G&A	P&L By Qtr	\$	964,575	76%	\$	1,817,750	15%	\$	3,117,000	8%	\$	5,308,500	7%	
<b>Operating Exp.</b>		\$	<b>4,216,200</b>	331%	\$	<b>10,570,275</b>	89%	\$	<b>20,740,038</b>	50%	\$	<b>35,207,975</b>	47%	
<b>Operating Profit</b>		\$	<b>(3,366,200)</b>	-264%	\$	<b>(2,590,275)</b>	-22%	\$	<b>7,274,963</b>	18%	\$	<b>17,092,025</b>	23%	





# The Business Model

- Provides the super-structure for the Financial Plan
- Blueprint of how your business will MAKE MONEY
- Documented by an Income Statement

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# Business Models - Retail

			
Revenue	100%	100%	100%
COGS	<u>76%</u>	<u>66%</u>	<u>63%</u>
Gross Margin	24%	34%	37%
R&D	0%	0%	0%
SGA	<u>18%</u>	<u>23%</u>	<u>27%</u>
Expenses	18%	23%	27%
Op Profit	6%	11%	10%
Annual Revenue	\$344B	\$59B	\$8.5B
Employees	1.9M	352k	53k
Rev per Emp per Yr	\$181k	\$167k	\$160k



# Business Models - Restaurant






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	 ™		
Revenue	100%	100%	100%
COGS	68%	76%	42%
Gross Margin	32%	24%	58%
R&D	0%	0%	0%
SGA	11%	14%	42%
Expenses	11%	14%	42%
Op Profit	21%	11%	16%
Annual Revenue	\$21B	\$2.2B	\$9.4B
Employees	465k	46k	144k
Rev per Emp per Yr	\$45k	\$48k	\$65k



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# Business Models – Tech H/W



Revenue	100%	100%	100%	100%
COGS	36%	47%	83%	26%
Gross Margin	64%	53%	17%	74%
R&D	13%	11%	1%	10%
SGA	26%	29%	10%	34%
Expenses	39%	40%	11%	44%
Op Profit	25%	13%	6%	30%
Annual Revenue	\$35B	\$11B	\$57B	\$12B
Employees	61k	31k	90k	38k
Rev per Emp perYr	\$573k	\$358k	\$633k	\$323k






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# Business Models – Tech S/W

			
Revenue	100%	100%	100%
COGS	19%	23%	34%
Gross Margin	81%	77%	66%
R&D	13%	12%	14%
SGA	24%	30%	25%
Expenses	37%	42%	39%
Op Profit	44%	35%	27%
Annual Revenue	\$51B	\$18B	\$12B
Employees	79k	75k	43k
Rev per Emp per Yr	\$645k	\$240k	\$288k



# Business Models – Internet

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	Apple	Google	Facebook	Zynga	LinkedIn	OpenTable	Pinterest
<b>Revenue</b>	100%	100%	100%	100%	100%	100%	100%
<b>COGS</b>	56%	35%	25%	27%	15%	27%	62%
<b>Gross Margin</b>	44%	65%	75%	73%	85%	73%	38%
<b>R&amp;D</b>	2%	14%	10%	31%	23%	9%	4%
<b>S&amp;M</b>		12%	11%	13%	30%	19%	22%
<b>G&amp;A</b>	6%	9%	10%	11%	21%	14%	12%
<b>Total Expenses</b>	9%	34%	31%	56%	74%	42%	38%
<b>Operating Profit</b>	35%	31%	44%	17%	11%	31%	0%
<b>Annual Rev (M)</b>	\$156,508	\$37,905	\$5,048	\$1,140	\$522	\$139	\$274
<b>Employees</b>	75,000	32,500	4,300	2,850	2,100	550	530
<b>Rev/Emp (000)</b>	\$2,087	\$1,166	\$1,174	\$400	\$249	\$253	\$517

# Business Models Slowly Evolve



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	NetScout	NetScout	NetScout	NetScout		Cisco	Cisco	Cisco	Cisco		
	Q3 '98	Q3 '00	Q3 '06	Q3 '09		Q3 '98	Q3 '00	Q3 '06	Q3 '09		
Revenue	100%	100%	100%	100%		100%	100%	100%	100%		
Cost of Goods Sold	32%	28%	23%	22%		35%	36%	36%	35%		
Gross Margin	68%	72%	77%	79%		65%	64%	64%	65%		
Sales & Marketing	29%	35%	48%	38%		19%	21%	25%	25%		
R&D	13%	13%	12%	14%		12%	14%	11%	13%		
G&A	6%	8%	7%	7%		3%	3%	3%	3%		
Total Expenses	48%	56%	67%	59%		34%	38%	39%	41%		
Operating Profit	20%	16%	10%	20%		31%	26%	25%	24%		
Annual Revenue/Emp.	\$ 350,000	\$ 320,000		\$ 300,000		\$ 600,000	\$ 675,000		\$ 555,000		

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# Building a Tech Model

- What is your product
  - Price that customer will pay
  - COGS - Unit costs & mfg O/H & support
- Distribution Strategy
  - May impact your sales price
  - May impact S & M and support expenses
- R&D should end up at 10% to 20
- G&A should end up at 5% to 15%
- Target an operating profit of 15% to 20%



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# First Major Decision: How will you sell your product?

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	Direct Sales Force	
Revenue	\$100	100%
Cost of Goods Sold	\$40	40%
Gross Margin	\$60	60%
Sales & Marketing	\$23	23%
R&D	\$12	12%
G&A	\$5	5%
Total Expenses	\$40	40%
Operating Profit	\$20	20%

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# First Major Decision: How will you sell your product?

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	Direct Sales Force	
Revenue	\$100	100%
Cost of Goods Sold	\$40	40%
Gross Margin	\$60	60%
Sales & Marketing	\$23	23%
R&D	\$12	12%
G&A	\$5	5%
Total Expenses	\$40	40%
Operating Profit	\$20	20%

	Distributor	
	\$80	100%
	\$40	50%
	\$40	50%
	\$8	10%
	\$12	15%
	\$4	5%
	\$24	30%
	\$16	20%

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Example - Distributor receives a 20% discount in return for Sales & Marketing efforts







# Building YOUR Model

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- Do NOT use Business Planning Software
- Build Sales Projections from the bottom up
- Do NOT project best-case/worst-case

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# Charlie's Rules-of-Thumb:

## Disclaimer

- Focused on making attractive to investors
- Most relevant for technology companies
- May not apply to your industry
- Most common Business Plan errors:
  - Revenue too high in year 4
  - Profit margin too high in year 4

# Building Financial Projections

## Technology Company Rules-of-Thumb

### Staffing **DRIVES** departmental expenses

- Average employee salary will be \$90K + -
- Employee benefits will add just 15%
- Salaries will be 60% to 70% of total expenses (non-COGS)
  - Remainder will be rent, utilities, travel, etc.
  - UNLESS you have extraordinary marketing!!!
  - Will reduce to 50% to 55% over time
- Sales staff will cost \$175 to \$250k per person per year
  - ~\$200k compensation (50% base, 50% commission)
  - \$50k in annual travel costs

**Disclaimer - May not apply to your company**



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# Building Financial Projections

## Technology Company Rules-of-Thumb

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- Sales Projections
  - \$50MM to \$100MM in year 5
- Revenue per Employee
  - Between \$150K and \$350K
- Revenue per Salesperson
  - Between \$1MM and \$3MM

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# Case Study:



Restaurants	12,300 ('09) ->	15,200 ('10) +2,900
Diners Seated	43M ('09) ->	65M ('10)

Subscription	\$44M
Reservations	\$48M
Installation	<u>\$7M</u>
TOTAL	\$99M

	Expenses		Staff
Operations	\$27M	27%	166
Sales	\$20M	20%	160
R&D	\$11M	11%	96
G&A	<u>\$15M</u>	<u>15%</u>	<u>71</u>
TOTAL	\$73M	73%	493
Operating Profit	\$26M	26%	

# Case Study:



Subscription	\$44M	(13,750) →	\$260/month
Reservations	\$48M	(65M) →	60 cents/diner
Installation	<u>\$7M</u>	(2,900) →	\$2,400 per
TOTAL	\$99M		

Revenues \$99M/year - \$200k revenue per employee/year

Expenses \$73M/year - \$148k expense per employee/year

- Estimate: salaries are 66% of expenses → \$100k avg salary

No print, broadcast, or online ads. Search Engine Positioning

If Sales Staff = 160 → \$125k annual expense per staff member

If Sales Staff = 80 → 36 restaurants per rep/year (50% staff sell)

Only \$311k revenue per sales staff

## RED FLAGS

Target market - 20,000 restaurants (vs 15,200 already installed)

Opportunity – 700M diners (vs 65M)



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# Case Study:



## Customer Acquisition v Customer Value

### Acquisition Cost\*:

\$20M for 2,900 customers = **\$6,900** average per customer

### 5-Year Customer Value (1 & 5 year):

Installation Fee		\$2,400
Subscription Fees	12 * \$260	\$3,120
Per-Diner Fees (360/mth)	12 * \$210	<u>\$2,560</u>
<b>Total Year 1</b>		<b>\$8,080</b>
Total year 1-5		\$70,560

\* Sales & Marketing ONLY



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# Case Study:



## KEY BUSINESS DECISIONS

Who Pays? Restaurant, diner, advertiser?

What would they pay for?

- Restaurant: Installation, Monthly fee, Volume based fee
- Diner: Per Reservation Fee
- Advertiser: CPM

How Much Do They Pay?

- Installation                      \$2,400
- Monthly fee                        \$260
- Volume based fee                \$0.60/diner

Other Decisions

- No Advertising but Customer Bonus (frequent diner plan)



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# Cash Flow Projections

## Happiness is a positive cash flow

### Or at least knowing when you need to raise more

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- Burn Rate
  - Monthly operating loss plus capital expenditures
- Cash Flow Projection
  - Cumulative operating losses excluding depreciation
  - Plus cumulative capital expenses
- To determine the total cash required
  - Cumulative operating losses PLUS
  - Cumulative capital expenses
  - On the month that you turn cash positive

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# How Much to Pay Yourself

- VCs don't want their entrepreneurs to starve  
BUT  
They want them to be hungry



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# End Result

## 4 year Profit and Loss Statement

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P & L by Year

		Source	Year 1		Year 2		Year 3		Year 4	
<b>Revenue</b>										
Product Revenue	P&L By Qtr		\$1,700,000	95%	\$12,180,000	93%	\$34,810,000	92%	\$60,200,000	90%
Support Revenue	P&L By Qtr		\$87,656	5%	\$910,649	7%	\$3,037,887	8%	\$6,431,460	10%
<b>Total Revenue</b>			<b>\$1,787,656</b>	<b>100%</b>	<b>\$13,090,649</b>	<b>100%</b>	<b>\$37,847,887</b>	<b>100%</b>	<b>\$66,631,460</b>	<b>100%</b>
<b>COGS</b>										
Product COGS	P&L By Qtr		\$598,063	33%	\$3,009,288	23%	\$9,366,100	25%	\$16,216,400	24%
Support COGS	P&L By Qtr		\$326,975	18%	\$754,040	6%	\$1,355,383	4%	\$2,294,416	3%
<b>Total COGS</b>			<b>\$925,038</b>	<b>52%</b>	<b>\$3,763,327</b>	<b>29%</b>	<b>\$10,721,483</b>	<b>28%</b>	<b>\$18,510,816</b>	<b>28%</b>
<b>Gross Margin</b>			<b>\$862,619</b>	<b>48%</b>	<b>\$9,327,322</b>	<b>71%</b>	<b>\$27,126,404</b>	<b>72%</b>	<b>\$48,120,644</b>	<b>72%</b>
<b>Expenses</b>										
Engineering	P&L By Qtr		\$1,746,688	98%	\$3,824,863	29%	\$6,685,350	18%	\$11,415,663	17%
Marketing	P&L By Qtr		\$811,375	45%	\$2,076,000	16%	\$3,448,350	9%	\$5,268,750	8%
Sales	P&L By Qtr		\$1,316,500	74%	\$3,370,650	26%	\$6,016,050	16%	\$10,001,750	15%
G&A	P&L By Qtr		\$1,091,625	61%	\$2,161,100	17%	\$3,593,250	9%	\$5,138,250	8%
<b>Operating Exp.</b>			<b>\$4,966,188</b>	<b>278%</b>	<b>\$11,432,613</b>	<b>87%</b>	<b>\$19,743,000</b>	<b>52%</b>	<b>\$31,824,413</b>	<b>48%</b>
<b>Operating Profit</b>			<b>\$(4,103,569)</b>	<b>-230%</b>	<b>\$(2,105,291)</b>	<b>-16%</b>	<b>\$7,383,404</b>	<b>20%</b>	<b>\$16,296,232</b>	<b>24%</b>

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# Profit and Loss Statement Quarterly

P & L by Quarter	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2	Q2 Year 2
<b>Revenue</b>							
Product Revenue	Sales Plan	\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000
Support Revenue	Sales Plan	\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189
<b>Total Revenue</b>		<b>\$-</b>	<b>\$207,500</b>	<b>\$524,375</b>	<b>\$1,055,781</b>	<b>\$1,847,086</b>	<b>\$2,788,189</b>
<b>COGS</b>							
Product COGS	COGS	\$84,000	\$114,000	\$146,500	\$253,563	\$492,575	\$698,538
Support COGS	COGS	\$75,900	\$77,900	\$82,400	\$90,775	\$153,161	\$174,252
<b>Total COGS</b>		<b>\$159,900</b>	<b>\$191,900</b>	<b>\$228,900</b>	<b>\$344,338</b>	<b>\$645,736</b>	<b>\$872,790</b>
<b>Gross Margin</b>		<b>\$(84,000)</b>	<b>\$93,500</b>	<b>\$377,875</b>	<b>\$802,219</b>	<b>\$1,354,511</b>	<b>\$2,089,652</b>
<b>Expenses</b>							
Engineering	Expenses	\$230,000	\$426,938	\$497,813	\$591,938	\$731,363	\$914,250
Marketing	Expenses	\$132,813	\$157,813	\$213,875	\$306,875	\$367,163	\$496,388
Sales	Expenses	\$160,563	\$240,250	\$411,000	\$504,688	\$623,450	\$809,925
G&A	Expenses	\$213,013	\$243,538	\$313,238	\$321,838	\$505,863	\$516,088
<b>Operating Exp.</b>		<b>\$736,388</b>	<b>\$1,068,538</b>	<b>\$1,435,925</b>	<b>\$1,725,338</b>	<b>\$2,227,838</b>	<b>\$2,736,650</b>
<b>Operating Profit</b>		<b>\$(820,388)</b>	<b>\$(975,038)</b>	<b>\$(1,058,050)</b>	<b>\$(923,119)</b>	<b>\$(873,327)</b>	<b>\$(646,998)</b>

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# Sales

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Sales Plan	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2	Q2 Year 2	Q3 Year 2	Q4 Year 2	
<b>Unit Sales</b>										
	Model 1	Input	-	20	50	100	200	300	400	500
	Model 2	Input	-	-	-	-	20	30	40	50
	Model 3	Input	-	-	-	-	-	-	-	-
	Total Units		-	20	50	100	220	330	440	550
<b>Sales Price</b>										
	Model 1	Input		\$10,000	\$10,000	\$10,000	\$7,500	\$7,500	\$7,500	\$7,500
	Model 2	Input					\$12,000	\$12,000	\$12,000	\$12,000
	Model 3	Input								
<b>Product Revenue</b>										
	Model 1		\$-	\$200,000	\$500,000	\$1,000,000	\$1,500,000	\$2,250,000	\$3,000,000	\$3,750,000
	Model 2		\$-	\$-	\$-	\$-	\$240,000	\$360,000	\$480,000	\$600,000
	Model 3		\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
	<b>Total Product Revenue</b>		\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000	\$3,480,000	\$4,350,000
<b>Support Revenue</b>										
	Installed Base		\$-	\$200,000	\$700,000	\$1,700,000	\$3,440,000	\$6,050,000	\$9,530,000	\$13,880,000
	Supported Base (retention)	75%	\$-	\$200,000	\$650,000	\$1,487,500	\$2,855,625	\$4,751,719	\$7,043,789	\$9,632,842
	Support Revenue	15%	\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189	\$264,142	\$361,232
<b>Revenue</b>										
	Sales Revenue		\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000	\$3,480,000	\$4,350,000
	Support Revenue		\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189	\$264,142	\$361,232
	<b>Total Revenue</b>		\$-	\$207,500	\$524,375	\$1,055,781	\$1,847,086	\$2,788,189	\$3,744,142	\$4,711,232

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# COGS

Cost of Goods Sold		Source	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
			Year 1	Year 1	Year 1	Year 1	Year 2	Year 2	Year 2	Year 2
<b>Unit Sales</b>										
	Model 1	Sales Plan		20	50	100	200	300	400	500
	Model 2	Sales Plan					20	30	40	50
	Model 3	Sales Plan								
	Total Units		-	20	50	100	220	330	440	550
	Total Installed Units		-	20	70	170	390	720	1,160	1,710
	Total Supported Base	Sales Plan	\$0	\$200,000	\$650,000	\$1,487,500	\$2,855,625	\$4,751,719	\$7,043,789	\$9,632,842
<b>Product COGS</b>										
<b>Mfg Staffing Plan</b>										
	VP Mfg		1	1	1	1	1	1	1	1
	Supervisor	1 per 10				1	1	1	2	2
	Technician	1 unit/day	1	1	1	2	5	8	11	13
	Other/Admin		1	1	1	1	1	1	2	2
	Total MFG Staff		3	3	3	5	8	11	16	18
<b>Variable COGS per Unit</b>										
	Model 1		\$1,500	\$1,500	\$1,250	\$1,250	\$1,250	\$1,250	\$1,000	\$1,000
	Model 2						\$2,000	\$2,000	\$1,500	\$1,500
	Model 3									
	Model 1		\$-	\$30,000	\$62,500	\$125,000	\$250,000	\$375,000	\$400,000	\$500,000
	Model 2		\$-	\$-	\$-	\$-	\$40,000	\$60,000	\$60,000	\$75,000
	Model 3		\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
	Total Variable Costs		\$-	\$30,000	\$62,500	\$125,000	\$290,000	\$435,000	\$460,000	\$575,000
<b>Product COGS</b>										
	Salaries & Benefits		\$69,000	\$69,000	\$69,000	\$113,563	\$172,575	\$233,538	\$338,800	\$384,375
	Variable Costs	from above	\$-	\$30,000	\$62,500	\$125,000	\$290,000	\$435,000	\$460,000	\$575,000
	Facilities		\$15,000	\$15,000	\$15,000	\$15,000	\$30,000	\$30,000	\$30,000	\$30,000
	Total Product COGS		\$84,000	\$114,000	\$146,500	\$253,563	\$492,575	\$698,538	\$828,800	\$989,375

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# Staffing Plan

## Staffing Plan

Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Year 1	Year 1	Year 1	Year 1	Year 2	Year 2	Year 2	Year 2	Year 2

## Engineering

CTO	Input	1	1	1	1	1	1	1	1
VP Engineering	Input					1	1	1	1
Project Manager	Input	1	2	2	2	2	3	3	3
Programmer	Input	4	8	10	12	14	16	18	22
Tech Writer	Input	-	1	1	2	2	4	4	4
Other	Input	-	-	-	-	-	-	-	-
<b>Total Eng</b>		<b>6</b>	<b>12</b>	<b>14</b>	<b>17</b>	<b>20</b>	<b>25</b>	<b>27</b>	<b>31</b>

## Marketing

VP Marketing	Input	1	1	1	1	1	1	1	1
Product Manager	Input	1	1	2	2	3	3	4	4
Mar-Com	Input	-	-	1	1	2	2	2	2
Other	Input	1	1	1	2	2	2	3	3
<b>Total Mktg</b>		<b>3</b>	<b>3</b>	<b>5</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>10</b>	<b>10</b>

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# Salary Expenses

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Staffing Plan0	Annual Salary	Expense Q1 Year 1	Expense Q2 Year 1	Expense Q3 Year 1	Expense Q4 Year 1	Expense Q1 Year 2	Expense Q2 Year 2	Expense Q3 Year 2	Expense Q4 Year 2	
		Benefits/COLA ->								
		115%	115%	115%	115%	117%	119%	121%	123%	
<b>Engineering</b>										
CTO	\$175,000	\$50,313	\$50,313	\$50,313	\$50,313	\$51,188	\$52,063	\$52,938	\$53,813	
VP Engineering	\$150,000	\$-	\$-	\$-	\$-	\$43,875	\$44,625	\$45,375	\$46,125	
Project Manager	\$125,000	\$35,938	\$71,875	\$71,875	\$71,875	\$73,125	\$111,563	\$113,438	\$115,313	
Programmer	\$85,000	\$97,750	\$195,500	\$244,375	\$293,250	\$348,075	\$404,600	\$462,825	\$575,025	
Tech Writer	\$60,000	\$-	\$17,250	\$17,250	\$34,500	\$35,100	\$71,400	\$72,600	\$73,800	
Other	\$80,000	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	
<b>Total Eng</b>		<b>To Dept Exp</b>	<b>\$184,000</b>	<b>\$334,938</b>	<b>\$383,813</b>	<b>\$449,938</b>	<b>\$551,363</b>	<b>\$684,250</b>	<b>\$747,175</b>	<b>\$864,075</b>
<b>Marketing</b>										
VP Marketing	\$175,000	\$50,313	\$50,313	\$50,313	\$50,313	\$51,188	\$52,063	\$52,938	\$53,813	
Product Manager	\$120,000	\$34,500	\$34,500	\$69,000	\$69,000	\$105,300	\$107,100	\$145,200	\$147,600	
Mar-Com	\$75,000	\$-	\$-	\$21,563	\$21,563	\$43,875	\$44,625	\$45,375	\$46,125	
Other	\$80,000	\$23,000	\$23,000	\$23,000	\$46,000	\$46,800	\$47,600	\$72,600	\$73,800	
<b>Total Mktg</b>		<b>To Dept Exp</b>	<b>\$107,813</b>	<b>\$107,813</b>	<b>\$163,875</b>	<b>\$186,875</b>	<b>\$247,163</b>	<b>\$251,388</b>	<b>\$316,113</b>	<b>\$321,338</b>

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# Non-Salary Expenses



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Departmental Expenses	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1
<b>Engineering</b>					
Salaries & Benefits	Staffing Plan	\$184,000	\$334,938	\$383,813	\$449,938
Tech Supplies (PP/PM)	\$2,000 input/formula	\$36,000	\$72,000	\$84,000	\$102,000
Misc / Other	input	\$10,000	\$20,000	\$30,000	\$40,000
<b>Total Engineering</b>	<b>To P&amp;L</b>	<b>\$230,000</b>	<b>\$426,938</b>	<b>\$497,813</b>	<b>\$591,938</b>
<b>Marketing</b>					
Salaries & Benefits	Staffing Plan	\$107,813	\$107,813	\$163,875	\$186,875
Literature / PR	input	\$5,000	\$5,000	\$10,000	\$10,000
Trade Shows	input	\$-	\$25,000	\$-	\$50,000
Misc / Other	input	\$20,000	\$20,000	\$40,000	\$60,000
<b>Total Marketing</b>	<b>To P&amp;L</b>	<b>\$132,813</b>	<b>\$157,813</b>	<b>\$213,875</b>	<b>\$306,875</b>

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# Non-Salary Expenses

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## Sales

Salaries & Benefits		Staffing Plan	\$136,563	\$201,250	\$345,000	\$409,688
Travel (PP/PM)	\$3,000	input/formula	\$9,000	\$18,000	\$36,000	\$45,000
Commission (% Rev)	3.00%	input/formula	\$-	\$6,000	\$15,000	\$30,000
Misc / Other		input	\$15,000	\$15,000	\$15,000	\$20,000
<b>Total Sales</b>		<b>To P&amp;L</b>	<b>\$160,563</b>	<b>\$240,250</b>	<b>\$411,000</b>	<b>\$504,688</b>

## General & Admin

Salaries & Benefits		Staffing Plan	\$107,813	\$127,938	\$185,438	\$185,438
Legal / Audit			\$30,000	\$30,000	\$30,000	\$30,000
Rent		See Below	\$50,000	\$50,000	\$50,000	\$50,000
Tel & Internet (PP/PM)	\$200	input/formula	\$10,200	\$15,600	\$22,800	\$26,400
Misc / Other		input	\$15,000	\$20,000	\$25,000	\$30,000
<b>Total G&amp;A</b>		<b>To P&amp;L</b>	<b>\$213,013</b>	<b>\$243,538</b>	<b>\$313,238</b>	<b>\$321,838</b>

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# Profit and Loss Statement Quarterly

P & L by Quarter	Source	Q1 Year 1	Q2 Year 1	Q3 Year 1	Q4 Year 1	Q1 Year 2	Q2 Year 2
<b>Revenue</b>							
Product Revenue	Sales Plan	\$-	\$200,000	\$500,000	\$1,000,000	\$1,740,000	\$2,610,000
Support Revenue	Sales Plan	\$-	\$7,500	\$24,375	\$55,781	\$107,086	\$178,189
<b>Total Revenue</b>		<b>\$-</b>	<b>\$207,500</b>	<b>\$524,375</b>	<b>\$1,055,781</b>	<b>\$1,847,086</b>	<b>\$2,788,189</b>
<b>COGS</b>							
Product COGS	COGS	\$84,000	\$114,000	\$146,500	\$253,563	\$492,575	\$698,538
Support COGS	COGS	\$75,900	\$77,900	\$82,400	\$90,775	\$153,161	\$174,252
<b>Total COGS</b>		<b>\$159,900</b>	<b>\$191,900</b>	<b>\$228,900</b>	<b>\$344,338</b>	<b>\$645,736</b>	<b>\$872,790</b>
<b>Gross Margin</b>		<b>\$(84,000)</b>	<b>\$93,500</b>	<b>\$377,875</b>	<b>\$802,219</b>	<b>\$1,354,511</b>	<b>\$2,089,652</b>
<b>Expenses</b>							
Engineering	Expenses	\$230,000	\$426,938	\$497,813	\$591,938	\$731,363	\$914,250
Marketing	Expenses	\$132,813	\$157,813	\$213,875	\$306,875	\$367,163	\$496,388
Sales	Expenses	\$160,563	\$240,250	\$411,000	\$504,688	\$623,450	\$809,925
G&A	Expenses	\$213,013	\$243,538	\$313,238	\$321,838	\$505,863	\$516,088
<b>Operating Exp.</b>		<b>\$736,388</b>	<b>\$1,068,538</b>	<b>\$1,435,925</b>	<b>\$1,725,338</b>	<b>\$2,227,838</b>	<b>\$2,736,650</b>
<b>Operating Profit</b>		<b>\$(820,388)</b>	<b>\$(975,038)</b>	<b>\$(1,058,050)</b>	<b>\$(923,119)</b>	<b>\$(873,327)</b>	<b>\$(646,998)</b>

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# CAPEX & Cash Flow

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Cash Flow	Source	Q1	Q2	Q3	Q4	Q1
		Year 1	Year 1	Year 1	Year 1	Year 2
Beginning Cash		\$-	\$4,019,713	\$2,607,275	\$923,950	\$11,090,650
Investment	Input	\$5,000,000	\$-	\$-	\$12,000,000	
Total Revenue	From P&L Quarterly * * delay 1 quarter	\$-	\$-	\$207,500	\$524,375	\$1,055,781
COGS Expenses	From P&L Quarterly	\$(159,900)	\$(191,900)	\$(228,900)	\$(344,338)	\$(645,736)
Departmental Expenses	From P&L Quarterly	\$(736,388)	\$(1,068,538)	\$(1,435,925)	\$(1,725,338)	\$(2,227,838)
Capital Expense	From P&L CAPEX	\$(84,000)	\$(152,000)	\$(226,000)	\$(288,000)	\$(312,000)
Change in Cash		\$4,019,713	\$(1,412,438)	\$1,683,325	\$10,166,700	\$(2,129,793)
Ending Balance		\$4,019,713	\$2,607,275	\$923,950	\$11,090,650	\$8,960,858

Capital Expenses		Q1	Q2	Q3	Q4	Q1
		Year 1	Year 1	Year 1	Year 1	Year 1
Employee Workstations (PP)		\$34,000	\$52,000	\$76,000	\$88,000	\$112,000
Prototype Expenses	Input	\$50,000	\$100,000	\$150,000	\$200,000	\$200,000
		\$84,000	\$152,000	\$226,000	\$288,000	\$312,000
Cumulative CAPEX		\$84,000	\$236,000	\$462,000	\$750,000	\$1,062,000

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# Financial Data Presentation Suggestions

- Steady, consistent evolution of your model
  - Revenue growth in \$
  - Expenses over time in %
- Show % next to quarterly & yearly columns
- Show pre-tax only
- Don't allocate G&A expenses

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# Executive Summary Presentation Suggestions

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- Annual P&L for 4 or 5 years (with %)
- Data to justify revenue projections
  - Unit sales
  - Average selling price (ASP)
- What quarter you will be profitable
- Your total cash requirement

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# Full Business Plan Presentation Suggestions

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- Page 1: Annual P&L for 4 years
- Page 2 & 3: Quarterly P&L for all 4 years
- Page 4: Quarterly Staffing plan for 4 years
- Page 5: Quarterly cash flow for 4 years

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# Sharing the Pie

## Thoughts on Equity Distribution

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# Equity Distribution Philosophy

- Compensate for:
  - Ownership of IP
  - COMMITMENT
  - Risk (stage of company, e.g. pre-funding)
  - Sacrifice (e.g. external compensation)
  - Past & future contribution
- Work to be Completed > Work Completed
- Maintain internal equity
- EVERYONE should vest – 4 years

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# Employee Specifics

## Ownership % after 2 rounds of financing

CEO	5%
VP	1% to 2 1/2 %
Sr Manager	.25% (1/4 of 1%)
Sr Ind Contributor	.1% (1/10 of 1%)

- Founding management might get 2x to 3x
- Founding employees might get 5x to 10x

YOU CAN ALWAYS GRANT MORE LATER



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# Equity Distribution Example

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Name	Title	#	Initial		After Early Employees		Post Angel		Post VC 1		Post VC 2		PP	
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%		
<b>Founders</b>														
Jack	CEO		2,000,000	50.0%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%		
Susan	CTO		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
Anil	VP Sales		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
<b>Total</b>			<b>4,000,000</b>	<b>100.0%</b>	<b>4,000,000</b>	<b>88.9%</b>	<b>4,000,000</b>	<b>80.0%</b>	<b>4,000,000</b>	<b>30.3%</b>	<b>4,000,000</b>	<b>18.2%</b>		
<b>Key Early Employees</b>														
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%		
Julie	Manager 1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%		
Sam	Manager 2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%		
<b>Total</b>					<b>-</b>	<b>0.0%</b>	<b>425,000</b>	<b>9.4%</b>	<b>425,000</b>	<b>8.5%</b>	<b>425,000</b>	<b>1.9%</b>		
<b>Advisors</b>														
<b>Board Members</b>		<b>25,000</b>	<b>3</b>				75,000	1.7%	75,000	1.5%	75,000	0.3%	0.11%	
<b>Total</b>							<b>75,000</b>	<b>1.7%</b>	<b>75,000</b>	<b>1.5%</b>	<b>75,000</b>	<b>0.3%</b>		
<b>Option Plan</b>														
<b>Manager</b>		<b>50,000</b>	<b>10</b>						500,000	3.8%	500,000	2.3%	0.23%	
<b>Sr. Eng</b>		<b>25,000</b>	<b>20</b>						500,000	3.8%	500,000	2.3%	0.11%	
<b>Jr. Eng</b>		<b>15,000</b>	<b>40</b>						600,000	4.5%	600,000	2.7%	0.07%	
<b>Admin</b>		<b>1,000</b>	<b>10</b>						10,000	0.1%	10,000	0.0%		
<b>Total</b>			<b>80</b>						<b>1,610,000</b>	<b>12.2%</b>	<b>1,610,000</b>	<b>7.3%</b>		
<b>Investors</b>														
<b>Angels (\$500K at \$4.5MM)</b>									500,000	10.0%	500,000	3.8%	500,000	2.3%
<b>VC Round (\$5MM at \$5MM)</b>											6,610,000	50.0%	6,610,000	30.0%
<b>VC Round (\$10MM at \$15MM)</b>													8,813,333	40.0%
<b>Total</b>									<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>500,000</b>	<b>10.0%</b>
											<b>7,110,000</b>	<b>53.8%</b>	<b>15,923,333</b>	<b>72.3%</b>
<b>Grand Total</b>					<b>4,000,000</b>	<b>100%</b>	<b>4,500,000</b>	<b>100%</b>	<b>5,000,000</b>	<b>100%</b>	<b>13,220,000</b>	<b>100%</b>	<b>22,033,333</b>	<b>100%</b>



MIT Sloan  
MANAGEMENT



# At Company Founding

50-50-50  
Consulting

Nuts  
And  
Bolts  
1/23/14



Name	Title	#	Initial		After Early Employees		Post Angel		Post VC 1		Post VC 2		PP			
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%				
<b>Founders</b>																
Jack	CEO		2,000,000	50.0%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%				
Susan	CTO		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%				
Anil	VP Sales		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%				
<b>Total</b>			<b>4,000,000</b>	<b>100.0%</b>	<b>4,000,000</b>	<b>88.9%</b>	<b>4,000,000</b>	<b>80.0%</b>	<b>4,000,000</b>	<b>30.3%</b>	<b>4,000,000</b>	<b>18.2%</b>				
<b>Key Early Employees</b>																
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%				
Julie	Manager 1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%				
Sam	Manager 2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%				
<b>Total</b>					<b>-</b>	<b>0.0%</b>	<b>425,000</b>	<b>9.4%</b>	<b>425,000</b>	<b>8.5%</b>	<b>425,000</b>	<b>3.2%</b>	<b>425,000</b>	<b>1.9%</b>		
<b>Advisors</b>																
					Per Person #											
Board Members		25,000	3				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	0.11%	
<b>Total</b>							<b>75,000</b>	<b>1.7%</b>	<b>75,000</b>	<b>1.5%</b>	<b>75,000</b>	<b>0.6%</b>	<b>75,000</b>	<b>0.3%</b>		
<b>Option Plan</b>																
					Per Person #											
Manager		50,000	10							500,000	3.8%	500,000	2.3%	0.23%		
Sr. Eng		25,000	20							500,000	3.8%	500,000	2.3%	0.11%		
Jr. Eng		15,000	40							600,000	4.5%	600,000	2.7%	0.07%		
Admin		1,000	10							10,000	0.1%	10,000	0.0%			
<b>Total</b>			<b>80</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>1,610,000</b>	<b>12.2%</b>	<b>1,610,000</b>	<b>7.3%</b>		
<b>Investors</b>																
Angels (\$500K at \$4.5MM)									500,000	10.0%	500,000	3.8%	500,000	2.3%		
VC Round (\$5MM at \$5MM)											6,610,000	50.0%	6,610,000	30.0%		
VC Round (\$10MM at \$15MM)													8,813,333	40.0%		
<b>Total</b>							<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>500,000</b>	<b>10.0%</b>	<b>7,110,000</b>	<b>53.8%</b>	<b>15,923,333</b>	<b>72.3%</b>
<b>Grand Total</b>					<b>4,000,000</b>	<b>100%</b>	<b>4,500,000</b>	<b>100%</b>	<b>5,000,000</b>	<b>100%</b>	<b>13,220,000</b>	<b>100%</b>	<b>22,033,333</b>	<b>100%</b>		



# After Early Employees

50-50-50  
Consulting

Nuts  
And  
Bolts  
1/23/14

Name	Title	#	Initial		After Early Employees		Post Angel		Post VC 1		Post VC 2			
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%		
<b>Founders</b>														
Jack	CEO		2,000,000	50.0%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%		
Susan	CTO		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
Anil	VP Sales		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
<b>Total</b>			<b>4,000,000</b>	<b>100.0%</b>	<b>4,000,000</b>	<b>88.9%</b>	<b>4,000,000</b>	<b>80.0%</b>	<b>4,000,000</b>	<b>30.3%</b>	<b>4,000,000</b>	<b>18.2%</b>		
<b>Key Early Employees</b>														
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%		
Julie	Manager 1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%		
Sam	Manager 2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%		
<b>Total</b>					<b>-</b>	<b>0.0%</b>	<b>425,000</b>	<b>9.4%</b>	<b>425,000</b>	<b>3.2%</b>	<b>425,000</b>	<b>1.9%</b>		
<b>Advisors</b>														
		Per Person #										PP		
Board Members		25,000	3		75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	0.11%	
<b>Total</b>					<b>-</b>	<b>0.0%</b>	<b>75,000</b>	<b>1.7%</b>	<b>75,000</b>	<b>1.5%</b>	<b>75,000</b>	<b>0.3%</b>		
<b>Option Plan</b>														
		Per Person #										PP		
Manager		50,000	10						500,000	3.8%	500,000	2.3%	0.23%	
Sr. Eng		25,000	20						500,000	3.8%	500,000	2.3%	0.11%	
Jr. Eng		15,000	40						600,000	4.5%	600,000	2.7%	0.07%	
Admin		1,000	10						10,000	0.1%	10,000	0.0%		
<b>Total</b>			<b>80</b>		<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>1,610,000</b>	<b>12.2%</b>	<b>1,610,000</b>	<b>7.3%</b>		
<b>Investors</b>														
Angels (\$500K at \$4.5MM)								500,000	10.0%	500,000	3.8%	500,000	2.3%	
VC Round (\$5MM at \$5MM)										6,610,000	50.0%	6,610,000	30.0%	
VC Round (\$10MM at \$15MM)												8,813,333	40.0%	
<b>Total</b>					<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>500,000</b>	<b>10.0%</b>	<b>7,110,000</b>	<b>53.8%</b>	<b>15,923,333</b>	<b>72.3%</b>
<b>Grand Total</b>					<b>4,000,000</b>	<b>100%</b>	<b>4,500,000</b>	<b>100%</b>	<b>5,000,000</b>	<b>100%</b>	<b>13,220,000</b>	<b>100%</b>	<b>22,033,333</b>	<b>100%</b>





# After Angel Round

50-50-50  
Consulting

Nuts  
And  
Bolts

1/23/14

Name	Title	#	Initial		After Early Employees		Post Angel		Post VC 1		Post VC 2			
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%		
<b>Founders</b>														
Jack	CEO		2,000,000	50.0%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%		
Susan	CTO		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
Anil	VP Sales		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
<b>Total</b>			<b>4,000,000</b>	<b>100.0%</b>	<b>4,000,000</b>	<b>88.9%</b>	<b>4,000,000</b>	<b>80.0%</b>	<b>4,000,000</b>	<b>30.3%</b>	<b>4,000,000</b>	<b>18.2%</b>		
<b>Key Early Employees</b>														
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%		
Julie	Manager 1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%		
Sam	Manager 2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%		
<b>Total</b>			<b>-</b>	<b>0.0%</b>	<b>425,000</b>	<b>9.4%</b>	<b>425,000</b>	<b>8.5%</b>	<b>425,000</b>	<b>3.2%</b>	<b>425,000</b>	<b>1.9%</b>		
<b>Advisors</b>														
			Per Person #									PP		
Board Members		25,000	3		75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	0.11%	
<b>Total</b>					<b>75,000</b>	<b>1.7%</b>	<b>75,000</b>	<b>1.5%</b>	<b>75,000</b>	<b>0.6%</b>	<b>75,000</b>	<b>0.3%</b>		
<b>Option Plan</b>														
			Per Person #									PP		
Manager		50,000	10						500,000	3.8%	500,000	2.3%	0.23%	
Sr. Eng		25,000	20						500,000	3.8%	500,000	2.3%	0.11%	
Jr. Eng		15,000	40						600,000	4.5%	600,000	2.7%	0.07%	
Admin		1,000	10						10,000	0.1%	10,000	0.0%		
<b>Total</b>		<b>80</b>			<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>1,610,000</b>	<b>12.2%</b>	<b>1,610,000</b>	<b>7.3%</b>		
<b>Investors</b>														
Angels (\$500K at \$4.5MM)								500,000	10.0%	500,000	3.8%	500,000	2.3%	
VC Round (\$5MM at \$5MM)										6,610,000	50.0%	6,610,000	30.0%	
VC Round (\$10MM at \$15MM)												8,813,333	40.0%	
<b>Total</b>					<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>500,000</b>	<b>10.0%</b>	<b>7,110,000</b>	<b>53.8%</b>	<b>15,923,333</b>	<b>72.3%</b>
<b>Grand Total</b>					<b>4,000,000</b>	<b>100%</b>	<b>4,500,000</b>	<b>100%</b>	<b>5,000,000</b>	<b>100%</b>	<b>13,220,000</b>	<b>100%</b>	<b>22,033,333</b>	<b>100%</b>





# After VC Round 1

50-50-50  
Consulting

Nuts  
And  
Bolts  
1/23/14



Name	Title	#	Initial		After Early Employees		Post Angel		Post VC 1		Post VC 2		PP	
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%		
<b>Founders</b>														
Jack	CEO		2,000,000	50.0%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%		
Susan	CTO		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
Anil	VP Sales		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%		
<b>Total</b>			<b>4,000,000</b>	<b>100.0%</b>	<b>4,000,000</b>	<b>88.9%</b>	<b>4,000,000</b>	<b>80.0%</b>	<b>4,000,000</b>	<b>30.3%</b>	<b>4,000,000</b>	<b>18.2%</b>		
<b>Key Early Employees</b>														
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%		
Julie	Manager 1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%		
Sam	Manager 2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%		
<b>Total</b>			<b>-</b>	<b>0.0%</b>	<b>425,000</b>	<b>9.4%</b>	<b>425,000</b>	<b>8.5%</b>	<b>425,000</b>	<b>3.2%</b>	<b>425,000</b>	<b>1.9%</b>		
<b>Advisors</b>														
<b>Board Members</b>		<b>25,000</b>	<b>3</b>			75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%	0.11%
<b>Total</b>						<b>75,000</b>	<b>1.7%</b>	<b>75,000</b>	<b>1.5%</b>	<b>75,000</b>	<b>0.6%</b>	<b>75,000</b>	<b>0.3%</b>	
<b>Option Plan</b>														
<b>Manager</b>		<b>50,000</b>	<b>10</b>							500,000	3.8%	500,000	2.3%	0.23%
<b>Sr. Eng</b>		<b>25,000</b>	<b>20</b>							500,000	3.8%	500,000	2.3%	0.11%
<b>Jr. Eng</b>		<b>15,000</b>	<b>40</b>							600,000	4.5%	600,000	2.7%	0.07%
<b>Admin</b>		<b>1,000</b>	<b>10</b>							10,000	0.1%	10,000	0.0%	
<b>Total</b>		<b>80</b>		<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>1,610,000</b>	<b>12.2%</b>	<b>1,610,000</b>	<b>7.3%</b>	
<b>Investors</b>														
<b>Angels (\$500K at \$4.5MM)</b>								500,000	10.0%	500,000	3.8%	500,000	2.3%	
<b>VC Round (\$5MM at \$5MM)</b>										6,610,000	50.0%	6,610,000	30.0%	
<b>VC Round (\$10MM at \$15MM)</b>												8,813,333	40.0%	
<b>Total</b>				<b>-</b>	<b>0.0%</b>	<b>-</b>	<b>0.0%</b>	<b>500,000</b>	<b>10.0%</b>	<b>7,110,000</b>	<b>53.8%</b>	<b>15,923,333</b>	<b>72.3%</b>	
<b>Grand Total</b>				<b>4,000,000</b>	<b>100%</b>	<b>4,500,000</b>	<b>100%</b>	<b>5,000,000</b>	<b>100%</b>	<b>13,220,000</b>	<b>100%</b>	<b>22,033,333</b>	<b>100%</b>	



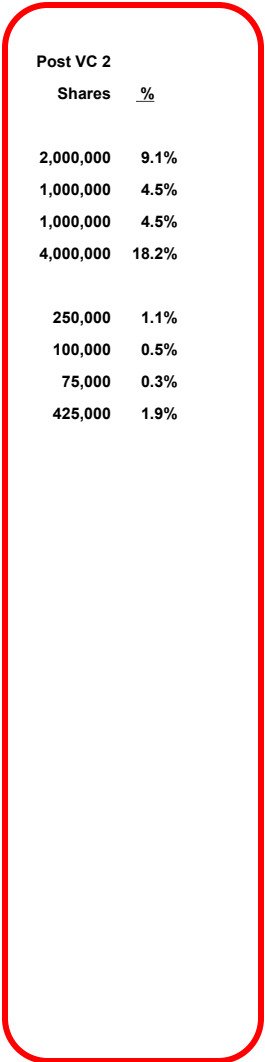
# After VC Round 2

50-50-50  
Consulting

Nuts  
And  
Bolts

1/23/14

Name	Title	#	Initial		After Early Employees		Post Angel		Post VC 1		Post VC 2	
			Shares	%	Shares	%	Shares	%	Shares	%	Shares	%
<b>Founders</b>												
Jack	CEO		2,000,000	50.0%	2,000,000	44.4%	2,000,000	40.0%	2,000,000	15.1%	2,000,000	9.1%
Susan	CTO		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%
Anil	VP Sales		1,000,000	25.0%	1,000,000	22.2%	1,000,000	20.0%	1,000,000	7.6%	1,000,000	4.5%
<b>Total</b>			<b>4,000,000</b>	<b>100.0%</b>	<b>4,000,000</b>	<b>88.9%</b>	<b>4,000,000</b>	<b>80.0%</b>	<b>4,000,000</b>	<b>30.3%</b>	<b>4,000,000</b>	<b>18.2%</b>
<b>Key Early Employees</b>												
Jack	VP R&D				250,000	5.6%	250,000	5.0%	250,000	1.9%	250,000	1.1%
Julie	Manager 1				100,000	2.2%	100,000	2.0%	100,000	0.8%	100,000	0.5%
Sam	Manager 2				75,000	1.7%	75,000	1.5%	75,000	0.6%	75,000	0.3%
<b>Total</b>			-	0.0%	<b>425,000</b>	<b>9.4%</b>	<b>425,000</b>	<b>8.5%</b>	<b>425,000</b>	<b>3.2%</b>	<b>425,000</b>	<b>1.9%</b>
<b>Advisors</b>												
		<b>Per Person #</b>										





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