Prefunding Activities of a Startup

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Who owns a startup at the moment it is created?

At the moment a startup is created, ownership typically belongs to the founders. If there are multiple founders, they share ownership based on their agreements. Ownership can also be influenced by initial investments or contributions from co-founders or early investors. Legal structures, such as LLCs or corporations, may affect ownership distribution. It's essential to document ownership agreements to avoid disputes later.

If there is more than one founder, how do they typically divide the equity?

Founders typically divide equity based on contributions, roles, and experience. Common methods include equal splits, where each founder receives the same share, or unequal splits based on the value each founder brings. Factors like initial investment, time commitment, and expertise can influence the division. It's also common to use vesting schedules to ensure founders earn their equity over time. Open communication and negotiation are crucial to reach a fair agreement.

Explain bootstrapping.

Bootstrapping is funding a startup using personal savings or revenue instead of external investments. Entrepreneurs use their own resources to cover initial costs, maintaining control and ownership. This approach encourages careful spending and resourcefulness. While it may lead to slower growth, it fosters sustainability. Bootstrapping is ideal for businesses that can generate cash flow early on, emphasizing self-reliance and strategic financial management.

Why would a startup want to delay selling equity or a SAFE?

A startup may want to delay selling equity or a SAFE to maintain control and ownership. Early dilution can reduce founders' influence and profits. Delaying allows the company to grow and increase its valuation, leading to better terms later. It also provides time to build a stronger business model and customer base, making it more attractive to investors. Additionally, waiting can help avoid unfavorable market conditions and ensure that the startup is in a better negotiating position.

Explain grants for startups.

Grants for startups are funds from governments or organizations that do not require repayment. They support innovation and economic development. Startups apply based on criteria like business type or project goals. The application involves submitting a proposal detailing the business plan and fund usage. Winning a grant provides financial support without debt.

What are the primary US federal grant programs?

Primary US federal grant programs for startups include the Small Business Innovation Research (SBIR) program and the Small Business Technology Transfer (STTR) program. The Economic Development Administration (EDA) also offers grants for economic growth projects. Additionally, the National Institutes of Health (NIH) and National Science Foundation (NSF) provide funding for research. For specific opportunities and eligibility, check Grants.gov.

What is an accelerator?

An accelerator is a program designed to support early-stage startups through mentorship, resources, and funding. It typically lasts a few months and culminates in a demo day where startups pitch to investors. Accelerators provide structured guidance, networking opportunities, and access to industry experts. They

often take equity in exchange for their support. The goal is to help startups grow quickly and become investment-ready. Examples include Y Combinator and Techstars.