

## Forming a Corporation – Investors

You've come up with the best idea since sliced bread, figured out a business name and formed a corporation. There is, however, one small problem. You need money. Welcome to the world of investing.

### Business Funds

Unless Bill Gates is your friend, money is going to be a problem for every new business. Even the mighty Google had to hunt for cash with one of the founders of Sun Microsystems finally kicking down a much needed \$100,000. Whether you decide to pimp your business plan to anyone breathing or beg your step-mother for funds, here are some issues to consider.

Investors are looking for the best deal, to wit, the most stock possible in an entity. If you are asking them for cash, they have the leverage. Don't be so desperate that you give away the farm. All too often, I speak with individuals who started a business on a whim and have become disillusioned because they have lost equity in the business.

Assume I start a corporation and need funds. My neighbor agrees to kick in \$20,000 for 20% of the stock. Things go great, but four months later I need another \$50,000 for inventory and cash flow. My aunt agrees to kick in \$50,000 for another 20% of the stock. Yikes, I am not even through the first year and I have given up 40% of the equity!

What happens in year two when I need a \$100,000? I give up more stock and suddenly own less than 50% of the business. Inevitably, this leads to feelings of resentment and bitterness. "It was my idea, but now these blood suckers are going to get most of the money and they aren't even working on the business." This sentiment is so common that it would be laughable if it weren't so depressing.

As a general rule, you should only sell ownership in a business as an absolute last resort. Instead, try to get loans from investors, banks, home equity lines and even credit cards.

If you must sell stock to raise funds, be very careful when valuing the stock. You should place a value on each share as though the company was already a raging success, not just starting out. Further, make sure you sell only small allotments of stock such as three to five percent. If you owned IBM, how much of the ownership would you sell for \$20,000?

### In Closing

When starting a corporation, guard equity as though it is the Holy Grail. If you don't, you risk becoming a disillusioned shareholder down the road.

## About the Author

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